

Social Research

AN INTERNATIONAL QUARTERLY
OF POLITICAL AND SOCIAL SCIENCE

VOLUME FIFTEEN · MARCH 1948 · NUMBER ONE

The Marshall Plan in the European Struggle	<i>A. A. Berle, Jr.</i>	1
Nationalization in France and Italy	<i>Mario Einaudi</i>	22
Primitives and Peasants in Industry	<i>Wilbert E. Moore</i>	44
On Strikes and Wages	<i>Eduard Heimann</i>	82
Veblen and Marx	<i>Bernard Rosenberg</i>	99
Book Reviews		118

Copyright, 1948, and published quarterly at 374 Broadway, Albany, N. Y., for the New School for Social Research, 66 West Twelfth Street, New York 11, N. Y. All rights reserved. Contributions to SOCIAL RESEARCH may not be reprinted without the permission of the editors. Subscriptions, \$3.00 a year, \$1.00 a single copy; Canadian and foreign subscriptions, \$3.50 a year. Entered as second-class matter June 13, 1944, at the post office at Albany, N. Y., under the Act of March 3, 1879.

Indexes of SOCIAL RESEARCH are published annually in the December issue; the contents are also indexed in the INTERNATIONAL INDEX TO PERIODICALS, available in most libraries.

EDITORIAL BOARD

BRYN J. HOVDE

CARL MAYER

ERICH HULA

HANS NEISSER

ALVIN JOHNSON

KURT RIEZLER

ADOLPH LOWE

HANS SPEIER

LEO STRAUSS

SOCIAL RESEARCH

is published in March, June, September and December, by the Graduate Faculty of Political and Social Science of the New School for Social Research, in cooperation with the Institute of World Affairs

EDITORIAL AND GENERAL OFFICE

66 West Twelfth Street, New York 11, N. Y.
Dr. Alvin Johnson, Chairman, Editorial Board
Dr. Leo Strauss, Associate Editor
Janet Rosenwald, Managing Editor
Doris Schiff, Editorial Secretary

All correspondence concerning manuscripts should
be addressed to Dr. Leo Strauss

SUBSCRIPTION PRICE

\$3.00 a year, \$1.00 a single copy
Canadian and foreign, \$3.50 a year

THE MARSHALL PLAN IN THE EUROPEAN STRUGGLE

BY A. A. BERLE, JR.

I

IN June, 1940, the United States looked out on a dangerous world. The Germans were undisputed masters of non-Russian Europe. Their ally, the Soviet Union, held the balance of Europe and northern Asia. Another ally, Japan, held the Pacific archipelagoes and most of China. Great Britain was fighting alone with her back to the wall, and was able to keep open only tenuous communication with the Middle East. The United States had a navy, but despite its great military potential had no effective army in being. Only the silver thread of the English Channel and the unlimited courage of a handful of Britons stood between us and almost complete encirclement by the Axis. In screaming propaganda a European dictator was consigning decadent democracy to permanent obliteration.

In the early months of 1948, a struggle again rages in a not-so-cold war for the mastery of Europe and for the shattered body of China. Whether we like it or not, the precipitating cause of the European struggle happens to have been the so-called "Marshall Plan." This was certainly by no American choice. But the historical fact is that the Soviet Union opened her general European offensive as a direct answer to the Marshall Plan, and has elected to make the United States its chief target.

The issue of this struggle is still in doubt. Should it be lost by the western nations, we could draw a picture of the world as it might stand some time in 1948.

The United States would again look out on a dangerous world. A European dictator would be unquestioned master of the entire continent of Europe, of northern Asia, and most of China. We

should have only tenuous communication with the Middle East. The dictator, in screaming propaganda, would be consigning democracy, as we understand it, to permanent obliteration. The United States would have great military potential and a navy, but not a first-class air or military force in actual existence. The world might easily resemble the one we faced after Dunkirk.

There would be differences. In 1940 there was a strong British force in being; now, a tired country gallantly struggles with almost insoluble problems. The United States would have access to the great Pacific archipelagoes, to Japan, and perhaps to Korea. In 1940, the alliance of Russia with the Axis concealed an internal weakness, since Hitler intended to attack his Soviet colleague. In 1948, the dictator of Europe would have different weaknesses, including unreadiness for an all-out war in which the United States might in time fully mobilize all her resources. Probably the greatest difference would lie in the fact that Soviet imperialism has now departed widely from the great values affirmed by the Russian Revolution of 1917. Stalin's position resembles that of Napoleon in late career rather than that of the early days of Hitler. Even so, the prospect would be frighteningly grave.

So much for possible disaster. There is also a good possibility that Europe may win through these trials, but it is against the background of this huge struggle that the Marshall Plan must be evaluated.

No fair-minded historian, I think, will accuse Secretary Marshall or the State Department of having conceived the Marshall Plan as a possible *casus belli civilis*. Actually, what Secretary Marshall quietly proposed on June 5, 1947, was an American policy directed not "against any country or doctrine but against hunger, poverty, despair and chaos." The United States needed, and hoped to get, Soviet cooperation based on that humanitarian principle. Bevin of England and Bidault of France promptly arranged to meet in Paris, and invited Molotov to attend. He, with eighty-nine experts, arrived there on June 27 to discuss a possible all-European agreement to work along the Marshall line. That conference

failed. On July 2 the Soviet delegation withdrew, in an atmosphere of sharp recrimination and threat. Immediately after, and undoubtedly on direct Kremlin orders, an all-out European diplomatic and political campaign against the Marshall Plan was set in motion.

II

For greater comprehension of the Marshall Plan, it is useful to record some unpublicized work that went on in the Department of State during the war years. Secretary Hull and Sumner Welles had foresightedly created study committees to work on postwar policy, the assumption being that the forces of the United Nations would eventually triumph. These found counterparts in international study committees set up in London, where most of the western European Allied governments then had headquarters. The economic difficulties now facing Europe were accurately forecast — no great gift of prophecy was needed for that. Also accurately it was forecast that the United States would emerge from the war with her productiveness substantially intact. Re-creation of Europe and, if possible, Asia, was considered essential to the building of any peace. Equally it was clear that Europe must herself play the major part in that reconstruction, and that American aid must stimulate European self-help.

Europe, west of Russia, is a subcontinent in which more than 300 million people divided into twenty separate nations support themselves by a highly integrated economy. This is based on a high level of mutual trade and exchange, supplemented by the import from, and export to, other areas of a large volume of raw materials and manufactures. The constituent nations never achieved effective unity among themselves through political arrangements, though integration had three times been imposed on them — once by Napoleon; once, less completely, by Metternich; and once by Hitler. Yet economic integration, at least, is a necessity if these hundreds of millions of people are to be fed, clothed, and housed. Before World War II, these functions

actually were performed by the great European cartels. In the absence of a politically cooperative system, these cartels had worked out supranational arrangements, which guided the economy of Europe; and this was the real basis of their strength. They governed, from the point of view of this writer, extremely badly; but they did govern. In large measure, Hitler during his brief reign took over and adapted that mechanism. With his defeat, both his political system and the old cartel system inevitably fell to pieces. It was always clear that the vacuum thus created would have to be filled.

In the quiet recesses of the State Department a considerable amount of economic material underlined the cardinal fact that the western European nations must either work together — or starve together. The reader may be spared long consideration of intra-European statistics. The conclusion is not open to question. Full production in all countries, including Germany, and the freest possible exchange between the component parts of western Europe and the rest of the world are necessary if that subcontinent is to maintain her historic civilization and with it a reasonable life for more than 300 million people.

Although Europe did import raw materials from the outside world, these were supplementary to her own sources of supply. For instance, three great mineral reserves of Europe were the Rhine Valley basins — the Ruhr, Luxembourg, and Saar; the Polish basins in the Silesia area; and the Teschen basin in Czechoslovakia. The degree of interrelation is suggested by the fact that a considerable portion of Italy's coal supply was mined in Silesia, loaded in Poland, freighted down the Vistula River, and brought by sea to Italian ports.

In manufacture it often occurred that iron ore lay in one country, coal in another; free transport across borders was essential to bring them together. Not infrequently, steel plants were built and equipped to use particular mixtures of ore, each class of ore proceeding from a different country — a fact that the Soviet Union is discovering today when it attempts to supply Russian ore to

Czech plants built to use different ores, only to find that a run of the Russian ore wrecks the mill.

Of no less importance was the integration of Europe with regard to food. The granaries in Europe were Rumania and Hungary; these, with an excess of food, supplied the amounts needed to eke out production in the more industrialized countries. The dairies of Europe were variously located; notable among them were the cheese- and milk-producing countries of Denmark and Holland.

Hardly less important was the problem of access to intra-European markets. A small country may have a high manufacturing ability, but to be economically efficient its plant must produce more goods than that country can absorb. Belgium, for instance, has ample ability to organize a motor car industry; but no large motor plant could survive on the Belgian market alone. This problem is repeated endlessly in the European pattern.

Consequently, the premise of the early studies was simple: a means of European cooperation and communication that would permit the essential economic integration to take place would have to be found. Without that, there could be no adequate restoration of European production. The need of reviving "a working economy in the world so as to promote the emergence of political and social conditions in which free institutions can exist" was the very datum of the task.

It was the hope of some of us closely concerned in it that a frontal attack on this foreseeable problem would begin immediately upon the German collapse. When the four armies — British, French, American, and Russian — established contact, Europe would be unified for the moment by force of circumstance. The currency in circulation would then be, virtually, the wartime occupation currency of the armies. Transport and communications throughout Europe would be under Allied military operation. Customs and national boundary barriers would have been cut through for military purposes. Supplies, from whatever country they came, would fall within the Allied supply machinery. An attempt could be made to use the golden moment to reestab-

lish a functioning European economy free from many of the shackles of purely nationalist restraint.

The dream was shared by representatives of many of the European governments in London. Plans began to develop, two of which became partial realities and may be mentioned here. An organization designed to pool, coordinate, and, if possible, unify the inland transport of Europe — rail, truck, and canal — was actually set up, functioned for a period of time, and did good service. Also a European coal commission to make possible the distribution of fuel was established. But, even as they were being formed, the outline of the future thrust itself into the war-end picture.

The Soviet Union was, of course, invited to take part in these plans. All our thinking had been based on the assumption that cooperation with the Soviets would continue in peace as in war. The Soviet representatives in preliminary discussions did express interest in specific phases of the problem of European collaboration. But the summer of 1944 witnessed a crescendo note in Soviet propaganda (always a better guide to Russian intentions than her diplomatic statements). Its purport was that any integration of Europe was a threat to Russian security. As a matter of fact, in the fall of that year, the Soviet Union discontinued effective cooperation with the European coal commission, declined to enter the European transport organization, and indicated in a number of indirect ways her dissatisfaction with any suggestions for the integration and economic rehabilitation of western Europe.

From evidence reaching the State Department at that time, and indications thereafter, I am convinced that the Soviet government secretly made a major policy decision in late summer or early fall of 1944. The decision apparently was to abandon cooperation with the other Allied governments, and certainly with Britain and the United States, in plans for the rebuilding of European economy, and to pursue an independent and unilateral course of expansionism immediately directed at Yugoslavia, Greece, Turkey, and Iran. Victory over the Axis, though not complete, was then

certain. The problem was whether Allied unity would continue in victory as in defeat. The Soviet Union decided "no." To all intents and purposes, that decision may be taken as the beginning of the "cold war," which became overt immediately after V-J Day, and whose intensity is now evident throughout Europe.

III

The stormy and unsatisfactory diplomatic history of 1945 and 1946 need hardly be reviewed. President Roosevelt endeavored to meet the situation at Yalta by making great and solid concessions to the Soviet point of view which, he believed, would assure Russian security, allay Soviet fears, and thus induce the Kremlin to agree on a cooperative course. The hopes arising from those concessions were not realized, and the Potsdam Conference could only recognize the fruits of that failure. The cooperation in all occupied territories agreed upon at Yalta was not implemented. The campaign aimed at eliminating Allied cooperation within any area occupied by Russian forces assumed increasing violence. Dreary meetings of the Big Four Foreign Ministers continued to a rising obbligato of countercharges, obstruction, and even insult. Secretary Byrnes did achieve a treaty of peace with Italy, albeit an unsatisfactory one, and accepted it on the theory that any agreement was better than none. It seems reasonably clear now that the Soviet government attained its objective — namely, to clear our Allied occupation troops from Italy in preparation for her political battle in that country. There was, it appeared, to be no peace.

And the ineluctable forces of European economics ground on. A shattered west European plant lacked even the measure of coordination it had achieved before World War II. Rising, and justifiable, claims of the people for food, shelter, supplies, could not be met. Budgets could not be balanced. The foreign exchange which European governments had salvaged out of the wreckage of the war was going out in payment for American supplies. The United Nations Relief and Rehabilitation Administration and the

spending of the American armies of occupation temporarily cushioned the immediate needs for elementary consumer goods such as food and clothing, but the funds appropriated for UNRRA were exhausted without materially improving Europe's ability to handle her own problems. Normal exchanges between eastern and western Europe were cut at the line of the Iron Curtain. As there was to be no peace, so also there was to be no economic recovery.

The design in all this was perceptible, as in the German case, but was essentially too repulsive to be easily accepted by American public opinion. For the design was, quite simply, the same that Hitler had expressed and that the nations of the world had gone to war to oppose: integration of the economies of Europe and Asia by the equivalent of a political dictatorship over the "world island." The chief changes were that the dictatorship should sit at the Kremlin instead of in Berlin, and that the political instrument should be the Communist International instead of the Axis. No peacemaking was accepted by the Soviet representatives except that which tended to forward this end.

One of the elementary lessons in foreign relations is that the best guide to a government's real intent can be found in its propaganda; and that, usually, a propagandist government accuses its opponents of precisely the intentions which it harbors itself. The Germans accused anyone and everyone of "aggression" against them, and charged every patriot who felt like defending his own country with being a "warmonger." Soviet propaganda accuses the world in general and the United States in particular of endeavoring to create a financial world empire in order to bend the entire earth to its own form of social organization. The propaganda has run — and still runs — true to form. The expectations of the Soviet statesmen today probably do not differ from those expressed by Stalin in his declaration of faith called "Essays in Leninism," written in the twenties. His timetable contemplated world revolution, led and helped by the Soviet Union, to take place at the close of a world war under cover of the resulting

economic collapse; and it foresaw the establishment of Russian hegemony in a communist world. Nothing in the current controversy suggests any departure from that aim, save that "world revolution" looks more like world conquest.

IV

In these circumstances American statesmanship has naturally sought a constructive solution. The idea of restoring European economy so that free men could freely meet their own problems again took form, this time in various governmental pronouncements, culminating in Secretary Marshall's famous speech at Harvard University on June 5, 1947. His brief paragraphs were widely hailed as a "plan," which of course they were not. Sedulous but unsuccessful efforts were made to point out that it was merely an "approach," designed, among other things, to stimulate cooperative action by Europeans themselves. Without specific information, I nevertheless suspect that the State Department did call attention of the European nations to the idea, expressing hope that they would take action accordingly. At all events, swift reaction followed.

The Prime Ministers of Great Britain and France met in Paris on June 17; they invited Molotov to attend the next day, and actually met with him on June 27. Mr. Molotov had no objection to American aid, but he did object violently to intra-European cooperation. His sole proposal amounted to suggesting that all hands estimate the amount of dollar aid they would like from the United States; it was to be understood, however, that the United States would disinterest herself entirely in the progress of Europe. The meeting broke up on July 2, whereupon the French and British Premiers invited all European governments to meet in Paris on July 12. Austria, Belgium, Denmark, Eire, France, Great Britain, Greece, Iceland, Italy, Luxembourg, The Netherlands, Norway, Portugal, Sweden, Switzerland, and Turkey accepted. Of the countries within the Soviet sphere of influence, Czechoslovakia alone accepted, but withdrew her acceptance after Stalin had sum-

moned her Foreign Minister to Moscow, in a manner strangely reminiscent of the invitations Hitler used to send to the prime ministers of his small neighbors. Having no government, Germany was not invited, but data were requested from the governments of her military commanders. Sixteen nations, representing 270 million people, met as requested. A committee on European economic cooperation was set up and directed to report by September 1.

It is difficult not to believe that behind the Committee on European Economic Cooperation there was the influence of a private and informal group headed by the famous Belgian patriot, M. Paul van Zeeland. For some months van Zeeland had been busy organizing a movement for European cooperation, based in part on the experience that three small but stout and clear-headed countries had already shared. Belgium, The Netherlands, and Luxembourg had signed and were implementing the renowned Benelux agreement for economic cooperation, which involved reciprocity, dropping of trade barriers, coordination of transport, equalization of exchange, and general facilities of needed integration. Van Zeeland knew that this, or something like it, must be the pattern if Europe was to escape from a vicious down spiral, and in all probability the European economists were influenced by his thinking.

In any case, on September 22, the Committee on European Economic Cooperation reported. Americans, for some strange reason, were mainly interested in the dollar figure of the aid requested from this country, though, to my mind, it is only one of the important items. The report estimated total cost of needed commodities (estimated at prices of July 1, 1947) in the following amounts: 13.9 billion dollars in 1948; 14.5 billion in 1949; 14.5 billion in 1950; and 14.4 billion in 1951.

The commodities were to come partly from the United States, and partly from the rest of the world, especially Latin America. From the United States it was estimated that Europe would need: 6 billion dollars' worth of commodities in 1948; 5 billion dollars'

worth in 1949; 4.8 billion dollars' worth in 1950; and 4.3 billion dollars' worth in 1951.

The assumption was that at the close of 1951 Europe would have revived enough to be able to export to the Americans goods more or less sufficient to pay for import needs; and that she would have increased her own production to the point of being able to get along. This was, of course, an assumption based on hope. It was estimated that during this period Europe could export a certain amount in return for the aid received, and that the net balance which the United States would have to supply would come to about 16 billion dollars. On this basis the net sacrifice called for from Americans would be 28 dollars apiece for each of the next four years—always assuming that American prices remained as they were in July 1947.

On the European side, the Committee proposed, in principle, three major lines of activity.

First, the sixteen governments were to agree to expand production of certain major commodities to achieve stated levels. There has been some question on the feasibility of these levels. For instance, the 1951 target for coal is one-third greater than production in 1947; critics insist it is overoptimistic, and may not be met. Steel production is to be 80 percent above 1947 output, and one-fifth more than production in 1938. Both objectives assume that Allied statesmen and occupation authorities will be able to get greatly increased production from the Ruhr. The food production to be achieved by 1951 will give Europe a food level 10 percent lower than it had in 1938, which may not be enough. Also, the program depends in part on a considerable increase in railway rolling stock, which will have to come in the first instance from the United States. It is pointed out that the United States is short of rolling stock and will need what she has to supply materials to Europe. These problems are serious; but no one of them is insoluble.

Second, the European countries were to put their own internal finances in order. Part of the difficulty arises from the fact that

few western Europe currencies are stable; distrust of each others' currencies, and the local exchange restrictions, go far toward destroying the integrated economic machine that western Europe needs. The specific proposal involves the creation of a stabilization fund of 3 billion dollars, stabilization of all currencies of the participating countries, and immediately thereafter, establishment of free convertibility of these European currencies into one another. This would abolish the "official" rates of exchange — and with them, black market rates.

Currencies thus stabilized would of course continue stable only if European budgets are approximately balanced. Unbalanced budgets with the uncovered portion made up through printed currency or fiat bank credit would continue the inflation pattern that has prevailed since 1945.

Balancing a European budget in the face of social demands of all kinds will be a Herculean job. It has been done; it can be done now; but it does put an enormous strain on the governments concerned. No outside assistance can provide the essential elements of public confidence and strong political backbone. Yet there is evidence to support the conclusion that European populations are tiring of inflation money expedients, and that political difficulties may prove fewer than some skeptics believe.

Third, the sixteen nations propose intra-European action to increase trade and production by mutual help. In this program is included the remnant of the inland transport organization referred to earlier in this paper, with its pooling of railway cars, freight car stocks, and so on. Further development of the European electric power grid or interchange crossing national borders is likewise mentioned.

But the great point of the Committee report is its stress on the principle of customs unions and lowering of customs borders between European countries themselves. The Committee insists that this must be done progressively and cannot be done in one fell swoop. Vested interests in tariff laws are no easier to dissolve in Europe than in the United States; and apparently in this

respect socialized industries develop much the same resistance to foreign competition as do private industries. The dream of a single, huge, free European market area, comparable in strength to the like area which the United States possesses internally, may be far from realization. But the Committee appears to think that substantial progress can be made in that direction; and the Benelux agreements point the way. Certainly if currency stabilization can be achieved, one huge obstacle will be removed.

This, the heart of the Marshall Plan, cannot be taken for granted either way. But at all points in great affairs one must proceed on faith to some extent; and faith is certainly as justified here as in most international negotiations.

v

As a corollary to the European work, a committee constituted under the leadership of Secretary Harriman was taking an inventory of the resources of the United States. This was designed primarily to answer the question whether the United States, without impairing its own economy, could meet the needs of the Marshall Plan. The report, which was detailed, skilful and enlightening, is perhaps secondary to the international discussion; it is enough to say that according to its conclusions the United States could quite safely and wisely extend support of the magnitude contemplated by the sixteen-nation schedule. A supplementary and unpublished report by the President's Council of Economic Advisers, headed by Dr. Edwin C. Nourse, reviewed the probable effect of the Plan on American economic conditions. Again the conclusion was that the Plan could be undertaken without undue strain on the economy of this country. One or two salient points may be of interest.

The sixteen-nation report called for American financial aid to Europe totaling about 13.9 billion dollars in 1948, but it was estimated that return imports would pay for a considerable part of that sum. The deficit represents the net strain on the finances of the United States and on current United States production. But

the Nourse Committee pointed out that in the year 1947 the excess of our exports to Europe over our imports from Europe was running at a rate that would make it greater than the deficit estimated in the sixteen-nation plan. Further, the Nourse Committee noted, our exports to Europe had already begun to drop sharply, for the obvious reason that Europe no longer has dollars with which to pay, and that consequently American-paid exports through UNRRA, and other governmental aid, or shipments paid for by European-held exchanges, were being cut off. The conclusion was that an implementation of the sixteen-nation plan would not place any greater strain on American production and finance than that which we had been sustaining, without too much difficulty, for the past year. The 6 billion dollars or so in goods which the United States would supply in 1948 under the Marshall program would not be an addition to the exports and aid we furnished last year, but would instead replace exports now being discontinued. In other words, the Marshall Plan does not add to current demands on American economy; rather, it merely continues a situation which we have already found it possible to meet. As a matter of fact, the current load on American production and export will, if anything, decrease slightly in 1948, and quite considerably in the following years.

Yet there is an economic problem, which arises from the fact that the Marshall Plan exports bear heavily on certain sensitive points in the American economy. These are, notably, food and steel. American grain production in 1947 was smaller than the production for 1946, and cannot be much greater in 1948. Exporting food supplies out of lower production could easily shoot up the price of grain, and of foods dependent on grain, to record levels, with resulting distress here. This would increase the financial strain on the administrators of the Plan, who must buy that grain chiefly in the United States. Equally, steel, despite capacity production in the United States, is not available to meet the enlarged postwar American demand. The considerable requirements for Europe will impinge on an already tight market—and

steel production is limited, at least for the moment, by our plant capacity.

These two situations, more than any others, led the Nourse Committee to recommend, and President Truman to make, the proposal that the United States government be empowered to put into effect price control should conditions require it. Appearance of inflationary prices due to scarcity in certain lines can unbalance and disrupt price levels in many other lines; hence the need for stand-by powers to be used in case of necessity. The economists found, however, that assuming a moderate rise in American production over the four years, the actual danger of inflation did not seem great, provided the special situations were effectively handled.

The various reports taken together define the task which the managers of the Marshall Plan will have to carry out. While it is far and away the largest peacetime project the country has ever had, it is not frightening in comparison with the wartime projects, which were carried out with a reasonable degree of success.

Financing through the United States Treasury will have to provide a total for four years of approximately 16 billion dollars (the balance of the dollar amount uncovered by return imports). This assumes that other countries—Canada and Latin America—would participate to the extent of imports required from them. It is my belief that few of the other countries from which Europe will need imports are in any position to participate. Realistically, it seems to me, we should figure on an overall total of not less than 20 billion dollars, to be financed over four years. This is a job for the Treasury, and present Treasury thinking rightly, in my opinion, contemplates raising the money by taxation, rather than by increasing the national debt. In point of fact, this would not require an increase in taxation for this purpose, since the Treasury of the United States has already been carrying the equivalent load for payments to UNRRA, or to the United States army for work in occupied territories, and the like.

VI

The Marshall operations will present a topflight problem in administrative organization. No official solution has yet been propounded. Some observations can, however, be made. The administrators of the Marshall Plan will have to set up a procurement organization and program. It would be plainly absurd to have sixteen nations bidding separately against each other for requirements. We have precedents and experience in this kind of operation. Allied procurement boards during the war performed this function for munitions and current supplies under conditions of far greater stress than those now contemplated.

Distribution of materials on the ground will call for a governmental organization that must tread new paths. We had a vaguely parallel problem under the Lend-Lease Administration which prevailed during the war. But lend-lease met on the other side of the seas a group of nations unified by sheer weight of military events. Here no parallel organization exists except as the sixteen-nation committee may be amplified and erected into an allocation and distribution mechanism; and the interests of the component countries are far from uniform.

Unquestionably two distinct types of operation are called for. One category of the Marshall Plan aid must take the form of goods destined for prompt consumption—food, fuel, fertilizer, and the like. Distribution of these will tend to be on a country basis; generally, the goods can be sold through regular channels. Proceeds will be collected in the currency of the country and should then become a local asset of the Plan administration. This cash cannot be reconverted into dollars, but could be used for limited intra-European operations, and for payment of local personnel. The Plan administrators will probably find themselves in control of a substantial and growing quantity of European currencies, and the use they make of these currencies will have to be carefully provided for. But their main task will be to assure that the consumption goods actually do reach the people for whom they are intended and on a fair and nondiscriminatory basis.

The other category will be capital goods supplied primarily to assist the recovery of European production. This can be an infinitely complicated job. Railroad cars may assist the flow of coal from, say, the Saar basin to French steel plants. Turbines may set up the production of electric power in other regions. Machinery may be provided for mechanization of certain British coal mines, and so on, ad infinitum. Priorities will have to be worked out for these expenditures which give promise of most rapid results—operating results which will often depend on agreements of collaboration between two or more countries.

This type of assistance, some observers believe, could be handled better by loan than gift. Certainly some entrepreneurs who can make good use of machinery are also in a position to make payment—though in the currency of their own countries rather than in ours. An infinite variety of transactions is possible, as is always the case with capital arrangements. But, unlike banking transactions, return of the money is subordinate to achieving the production—and, in the long run, the United States will benefit more from the production.

Rapid development of a reasonably practical overall plan, refined to direct application in a great number of situations, few of which are alike, calls for a field staff, reporting to the central Plan administration and capable of acting with intelligence, speed, prudence, and shrewdness. This staff would clearly be doing a job quite different from the distributors of consumption goods.

In general, the problems fall into two groups: those to be handled in the United States—finance, procurement, and policy-making; and those to be taken care of in Europe—finances (handling European currencies received in exchange), distribution of consumption goods, and distribution of capital goods according to an overall but highly flexible plan. Such a program is new to the United States, though certain analogues can be found in the operations of the Export-Import Bank and the Reconstruction Finance Corporation.

It would seem likely that central administrative problems will

have to be resolved in Europe as well as in the United States. The endless but essential intra-European agreements can be worked out speedily only on the ground, where European officials and enterprises can be called into rapid consultation. One may almost assume that inevitable logic will prescribe a Plan administrator sitting in Washington, in consultation with the Department of State, and having perhaps temporary Cabinet rank, though subject in matters of policy to the secretary of state. Similar logic would suggest the need of a deputy administrator, having a permanent office in Europe, and charged with general responsibility for execution of the policies agreed on. There has been some talk of making him a "roving ambassador," which seems to me impractical. Continuity of administration will be of the essence. Almost of necessity, this precipitates a problem in American diplomatic organization.

It would seem that in each of the sixteen participating countries there will have to be a field chief. Under the American system the ranking officer in any country is the ambassador, who is the direct representative of the president of the United States. During the war we had endless trouble when an administrator with far-reaching powers worked independently of the ambassador, for such a setup is made to order for jurisdictional disputes at all levels.

Probably the best solution would be to recognize the situation frankly, to make the necessary shifts, and to appoint as the Marshall Plan country administrators the ambassadors in each of the countries concerned, flanking them perhaps with capable ministers to handle routine embassy functions. This would recognize formally a situation that has long existed, namely, that an American ambassador in the world of today is not an aloof representative of a distant sovereign. He is directly involved in the economic processes of the country to which he is accredited, if there is economic collaboration between the United States and that country. When, as under the Marshall Plan, economic collaboration becomes extremely close, the functions might well be temporarily

unified in the same person—a person who could report for diplomatic purposes to the secretary of state and the president, and for Marshall Plan purposes to the Plan administrator.

One might also suggest that provision be made for regular meetings of these executives with the European deputy administrator. Collaboration between various units of a big government organization is a problem in itself, and our experience during and after the war suggests that it should not be ignored.

These and like problems are now at white heat of decision. The scope of the Marshall Plan has been delimited by the various reports, and the economic impact has been fairly well estimated. But no scheme of organization has yet been put forward officially and the true Marshall Plan will have to be finally determined by legislation which the Congress will have to enact.

VII

While we have been debating in the United States, drums have been rolling on the European front. The Soviet Union, as we have seen, has elected to challenge the Marshall Plan. Her political strategists called a meeting in Belgrade, and in September 1947 formed an organization of the six countries within her sphere of influence—Poland, Hungary, Rumania, Bulgaria, Yugoslavia, and Czechoslovakia. To these were added the representatives of the Communist parties in Italy and France. Agreements were reached for the purpose of integrating and coordinating their propaganda and “psychological warfare”; the resulting organization, called the Cominform, is a recrudescence on nationalist lines of the dissolved Third International. The immediate goal is to prevent the acceptance by Europe of the Marshall Plan, or, if it is accepted, to prevent its success.

Zhdanov and Malenkov, both members of the Soviet Politburo, handled the operation. We can only speculate with regard to the precise instructions given; historians of the future will no doubt provide the information. The effects we already know. Propaganda against the United States was intensified. Direct labor

action through general strikes was planned. A wave of such strikes, not without civil violence, was inaugurated in both France and Italy. In France these reached peak proportions when a plain attempt was made to overthrow the Schuman government. The immediate French crisis apparently was passed on December 9, though at a cost in local production so great as to lead some commentators to suggest that the success of the Marshall Plan has been jeopardized. This seems unduly pessimistic. In Italy a round of violence took place in the valley of the Po; a second round was attempted by a general strike in Rome, called on December 11 and designed to unseat De Gasperi. Obviously if either the French or the Italian governments had been unable to govern, or had fallen into Communist hands, consideration of the Marshall Plan would be almost academic.

The governments of both France and Italy staked their official, and very likely also their personal, lives on maintaining collaboration with the United States under the Marshall Plan. This, despite the fact that the Plan has not yet been approved by the Congress of the United States. A European observer in conversation called it the greatest political gamble in history on a future Congressional vote. Should the Congress repudiate Marshall, the effect would be incalculable.

The political repercussions of the Marshall Plan, even before adoption by Congress, have been enormous. Two key Continental governments have made it the cornerstone of their policy. It took courage to propound the Marshall Plan; it will take even greater—and, it may be added, more reckless—courage to face the consequences of its defeat.

For the Marshall Plan, probably without direct intention, has furnished the nucleus of a changed European psychology. From V-E Day to June 1947, Europe was going nowhere. The guiding machinery—the conferences of Foreign Ministers—had so plainly broken down that their meetings were dreaded. There were still 300 million or more people in the western European subcontinent; they still had the same skills, and not inconsiderable eco-

conomic resources. Alone they lacked decision to form into a correlated group either along the lines of a United States of Europe, or along mutual economic lines, fearing lest the result might be immediate attack. No government acting by itself could do more than stave off the evil day. Whether through timing, or through the brilliance of Mr. Bevin's initiative, or through the logic of circumstances, or through the patient propaganda of M. van Zeeland, the Marshall Plan struck an immediate spark. In union there was not only strength but hope; and in American aid lay the possibility that the union might be effected. As a result, though political warfare was at once intensified, the fundamental situation changed. Europe in the west began to pull herself together.

It is in that situation that we meet the Marshall Plan: no longer merely a project before the Congress, but a great political, diplomatic fact. It can only be hoped that the debates in Congress will be held in a spirit commensurate with the tremendous gravity of the underlying realities.

(New York City)

NATIONALIZATION IN FRANCE AND ITALY

BY MARIO EINAUDI

THE issue of nationalization of the basic areas of economic activity loomed so large on the postwar political scene in Europe that it looked as though the political and economic fate of the Continent hung on its solution. By many it was believed to be the most vital of the structural reforms to be carried out if true democracy was to be restored. But after two years, the matter has lost some of its early urgency. It somehow appears unrelated to the really important questions of the day, and there are some persons who now agree with the statement made by Edouard Herriot a good many years ago that nationalization is like a drum: it makes a lot of noise, but there is nothing inside. The issues, however, are more complicated than that, and they are sufficiently important to deserve careful consideration.

The two countries that come within the scope of this discussion have nationalized areas of economic activity which, in the balance, may be considered of roughly similar economic significance. Both France and Italy have nationalized their central banks of issue, and the major commercial banks. Both have nationalized a large sector in the insurance field. France has nationalized the electricity and gas industries, but not iron and steel. Italy, on the contrary, has nationalized the greater part of the iron, steel, and armament industries, but only a small segment of the electric industry. Coal has been nationalized in France, and what little coal there is in Italy has also been brought under state control. Finally, both countries have long since brought communications and shipping under public control.

But if the areas under the control of the state offer substantial similarities, the circumstances and methods of nationalization differ sharply. Nationalization was achieved in Italy about fifteen

years ago at the depth of the depression, under the Fascist regime, and more or less by accident. Nationalization in France has been achieved during the wave of exhilaration born of regained freedom and in the hope that the highway to a better economic future was thus being opened.

Given this diversity of background, I shall deal separately, first, and more briefly, with Italy; second, and more fully, with France.

I

The origins of nationalization in Italy have to be traced to the policies followed by the great commercial banks. In the main, this policy had been, since the beginning of the century, to invest heavily in the industrial development of the country. Whereas in Anglo-Saxon countries private investors have been willing to risk their money in industry, leaving commercial banks free to use their depositors' funds for the liquid and short-term operations usually associated with commercial banking, the timidity of the Italian investor forced upon commercial banks the task of financing the industrial growth of the country.

The strain and the gradual freezing of banking assets, which this policy involved, were not generally realized by the strongest of the banks, so long as general economic conditions continued to be favorable. The painful incidents that had accompanied the 1919-21 crisis were soon forgotten or were believed to be of no particular significance. By 1932, however, the onslaught of a worldwide depression had made the position of the major Italian banks a critical one. Most of their assets were solidly frozen in industries whose earning power was for the moment approaching zero. On the other hand, depositors' uneasiness was rising. The government of the time realized that, for the sake of public tranquility, drastic steps had to be taken.

On January 22, 1933, the Industrial Reconstruction Institute, a government corporation, was created for the purpose of restoring the banking system to solvency. IRI took over the entire industrial commitments of the three major banks, which in this

way regained that liquidity of assets which the government felt commercial banks should have. In acquiring the industrial portfolio of the banks, IRI also acquired a majority of the stock of the banks themselves.

As a result of this operation, IRI owns today perhaps one-fifth of all Italian banking and industrial assets, for which it paid very little, in view of the subsequent devaluation of the lira. IRI owns all major Italian banks. It also owns all radio facilities, all shipping lines, most of the telephone system, 75 percent of the pig iron, and 50 percent of the steel industry. Also, all heavy armament industries and all the shipbuilding industries, one-fifth of the production of electric energy and one-half of the new industries in the fields of synthetic chemicals, rubber, and fuels. Taken together, this represents a formidable instrument of economic power in the hands of the state.

All this was accidental. In 1933, the Fascist government had no intention of nationalizing the means of production. The collectivistic wing of Fascism had just been decisively defeated. Nationalization was embarked upon because it was the only way of averting a banking panic. Having helped the banks, the government became their master, as well as the owner of all their industrial assets. In 1933, it was the intention of the government to liquidate these industrial assets as soon as possible, which it did for a time, though nothing of a vital nature was sold. Beginning in 1936, however, this policy was reversed to fit in with the new ideas of imperial conquest and of total industrial mobilization of the country for the purpose of waging war. From then until its collapse, Fascism proceeded to strengthen its hold over the industrial structure of the country.

The Italian Republic is thus the heir to a situation created by Fascism, and the points currently under dispute are whether to continue on the path marked by Fascism and, if so, whether to accept Fascist solutions and procedures.

These measures were the simplest imaginable. In essence they meant the transfer of ownership of certain blocks of shares from

the banks to the state. For some corporations these blocks represented all the shares outstanding, but for most, only a majority. No attempt was made to upset the ownership of stock by private individuals. Furthermore, the organization of each corporation was left substantially untouched at first, with management in the hands of the same people as before. The private operation of nationalized industries appeared undisturbed, subject only to the general directives issued by IRI. Later the freedom of action of the various industrial groups was severely curtailed when Fascism used its newly acquired economic power for its mobilization plans, and when IRI, instead of remaining a mere holding company, set up semioperating agencies of its own in broad fields of economic activity, such as steel and shipping.

To sum up, Fascism adopted a privatistic conception of nationalization, relied to a very large extent on the old managerial class, and, in many instances, permitted private participation in stock ownership to continue. The use of IRI as the core of its war machine was all that really mattered.

This was bound to change. In its capacity as an arms producer, IRI is now useless. The government orders, which until 1943 kept this section of IRI on its feet, are gone. At an immense loss to the state, these mechanical, naval, and armament factories have so far been kept together, and their 50,000 workers paid regular wages for rather casual work. Whether to keep these industries alive, or to proceed to a ruthless surgical operation, which would be justified by the reduced circumstances of Italian economy, is the question. The present government leans toward the latter solution, whereas the Communists incline toward the former.

The major issue, however, has to do with management. The Christian Democrats accept present arrangements as adequate for the establishment in crucial economic areas of the principle of government ownership and government direction in the interest of the general welfare. The Communists insist that "true" nationalization must be achieved, and they believe that the trans-

fer of ownership of shares is a mere legal transaction, which will remain without substantial consequences so long as the old managers are not liquidated and replaced by new ones who can really be trusted to act in the interests of the people. The issue is, on the one hand, between unified business management under continuous government control, of course carrying out purposes and plans of which the state approves, and, on the other, management by workers' or peoples' councils. The choice between the two solutions is one that will obviously be dictated by the prevailing political climate within the country, and has significance only in terms of the current political struggle. It is a difference of method and not of principle, for no important voice has been raised in Italy to favor the return of the major IRI-controlled assets to private hands.

II

While Italian developments have been such that the only answer to the question, "Why a policy of nationalization?" is the simple one that it was part of a banking salvage operation, French developments allow us a full view of the motives that have led most of Europe to accept nationalization.

In the first place, all large political parties believed that nationalization was needed to break the hold of monopoly capitalism in those areas where it was strongest. Banking and insurance were good examples of monopolistic trends. Even the multiplicity of companies in the field of electricity was not enough to protect it against the inroads of monopoly. M. Ramadier, in his report of March 13, 1946, to the Constituent Assembly, waxed lyrical in his description of the mysteries of what he called an electrical dispatching center, linking all France together, and wherein, by the manipulation of mysterious gadgets, millions of kilowatts obey the orders of a remote and invisible dictator and march obediently back and forth across France. Better, in the circumstances, that the dictator be the state itself, for the tendency of monopoly capitalism is that it tries to become the master of government.

M. Pineau, *rapporteur* on the banking nationalization bill, told the Constituent Assembly on December 2, 1945, that the big banks have been particularly guilty in this respect, as when in 1926 they exercised heavy pressure on the government of the *cartel des gauches*; or in 1935 when they imposed on the government a policy of wage deflation; or in 1936 when they carried out a victorious fight against the Popular Front government.

In the second place, some of the industries to be nationalized affect the public interest. Their services are in the nature of public services which had better be rendered by the state. This was true, it was said, of public utilities, and also of insurance, where one could not tolerate the predominance of private over collective interest. The Communists, in particular, stressed the immoral aspects of a business in which private individuals sought to derive gain from the urgent need of human beings to make provisions against sudden death.

In the third place, some of these institutions had grown so big that they had a tendency to disregard the interests of the small businessman. Again the Communists underlined the necessity for bringing banks under state ownership so that small independent traders and industrialists could get the support they deserve. Government ownership would also put an end to the reckless stock speculations and manipulations that had become the favorite pastime of these great financial institutions.

As was to be expected, the question of the patriotism of the industries under scrutiny played a considerable role. Banking, insurance, power, coal, and steel were all to be nationalized because of their antipatriotic behavior and their collaboration with the enemy. It was repeatedly pointed out that this anti-national attitude was not a wartime phenomenon, but rather a trait of long standing. The banks had for many years facilitated a flight of capital from France, which had contributed to the weakening of the country. And, as the Communist party declared, the insurance companies were never anxious to redress that unfavorable balance of international payments in the insurance

field, which, before 1939, was costing France well over half a billion francs each year, this being the difference between premiums paid to foreign companies operating in France and premiums received by French companies operating abroad.

The degree of antipatriotism on the part of public utilities was apparently smaller. All that Ramadier could contribute to the indictment was that one could not say that all electrical firms had always abstained from relationships with groups which led to the formation of the *Croix de Feu*. Such circumspection was abandoned in the case of the coal industry, where the willingness of the industry to exploit the richest mines for the benefit of the invader was given as one of the main reasons for nationalization. For the guilty, the Communists suggested outright expropriation without indemnity, a treatment also asked for the largest steel groups, such as the de Wendel companies, whose collaboration with the Nazis was said to be proved by public documents.

Nationalization was also supported by other and less emotional arguments, some of which had an economic content. Thus it was said that nationalization was required to obviate economic obsolescence, to introduce the rationalization necessary for an increase in output, and to improve the welfare of the workers.

The Communists, as they surveyed the insurance scene, lamented the fact that the French insurance business was the most retrograde in the entire world and that while in the United States insurance payments of all kinds amounted to more than 10 percent of the national income, in France they amounted to only 3 percent. Nationalization would remedy this state of affairs, even though some persons might feel that the combined pressure of American insurance sales methods and French Communist propagandistic zeal might well prove fatal to the survival of the insured. The mining industry was equally guilty economically, with two-thirds of the coal pits in inefficient condition. Nationalization was needed for rationalization. More coal than ever had to be mined. Moreover, by 1952, the output of electricity was to be doubled and 200 billion francs were to be borrowed from private

investors for this purpose. Private industry was too discredited to accomplish this job.

Reading these debates one feels a sense of urgency. France must achieve higher productivity, at lower prices, in order to maintain her position as an industrial nation. The belief that such goals could be gained only by a concerted effort, and that, under present difficulties, such effort could be undertaken only under the leadership of the state, is certainly a tenable one.

In order to carry out such ambitious programs, the welfare of the worker and his status within the community must be considered, and every effort must be made to undo the damage of what the Communists called "the twelve years of terror" in the coal mines, which resulted in the "expulsion" of 120,000 miners between 1923 and 1935. The workers themselves must become one of the major driving forces in the future administration of nationalized industries.

By and large, a substantial measure of agreement was achieved on all these varied reasons why certain basic economic activities should be nationalized. Exclusive of a few small groups to the right, the entire Constituent Assembly favored nationalization of banks, insurance, power, and fuel. The vote on the banking bill, 521 for and 35 against, may be taken as a fair indication of the hold that nationalization exerted upon the representatives of the people.

The National Council of Resistance had stated quite early that it was necessary to provide for the return to the nation of the great monopolized means of production, fruits of the common labor, of the sources of energy, and of the mineral wealth of the nation. There was no plainly audible voice of dissent. Even General de Gaulle reminded us in November 1947 that coal, electricity, and the banks had been nationalized under his government, though since that time there had been a misuse of the new functions acquired by the state.

But the general agreement on following a policy of nationalization did not mean an absence of conflict when it came to defining

the areas of nationalization. Serious conflict did indeed arise. The most significant instance has been the failure, to date, of the two Constituent Assemblies and of the present National Assembly to agree on the nationalization of iron and steel. As in England, French governments have found it difficult to proceed in that direction. The Communists have been the chief advocates of nationalization, and a bill prepared by their group has been before the National Assembly since December 12, 1946.

Another serious difference of opinion developed in the banking field, where, upon the insistence of the government, the two great financial banks, the Banque de Paris et des Pays-Bas and the Union Parisienne, were not nationalized, in order not to upset their network of international relationships. The law, however, provided for the appointment of a government commissioner with full veto power to the board of directors of each of these banks. With regard to the need of nationalizing the great commercial banks in addition to the Bank of France, contrary to the British precedent of nationalizing only the Bank of England, the government gave an unusually frank answer. Minister of Finance Pleven said that while he felt sure that one word uttered by the governor of the Bank of England would bring full compliance from the commercial banks, the same was far from true in France, and the only way in which the government could make its monetary and credit policies accepted was to bring all major banks under government ownership. When these discussions were ended and the first Constituent Assembly had completed its legislative program, in May 1946, these were the results:

1. *Banking.* The Bank of France and the four great commercial banks were nationalized; and, in consequence, a total of 80 percent of bank deposits were brought under government control.

2. *Insurance.* The largest companies were nationalized, that is, those whose combined premium revenues amounted to 68 percent of the national total. With an unexpected concession to liberalism, this partial nationalization was said by the finance committee

of the Constituent Assembly to be a good thing, for it would keep competition alive between the public and private spheres.

3. *Electricity and gas.* Everything was nationalized, except the natural gas industry, electrical plants with an average yearly output in 1942 and 1943 of less than 12 million kilowatt hours, and gas works with a yearly output in the same years of less than 6 million cubic meters.

4. *Coal.* The entire industry was nationalized, with minor exceptions.

III

It is, then, within the above-defined boundaries that one must look at nationalization in France. And the first problem is that of the indemnity to be paid the former owners who were all to be expropriated, a far more complicated task than in Italy, where only three great banks had to be compensated.

The question of withholding payment from certain groups was debated, with the Communists insisting that, in the coal industry, the indemnity should be paid only to small and "patriotic" stockholders. The difficulties involved in using the elusive concept of patriotism to decide whether indemnities should or should not be paid were recognized, and the principle of indemnity for all former owners was eventually accepted. This victory proved to be more significant in principle than in practice, for the computation of the indemnities and the methods chosen for paying them substantially reduced the legitimate claims of the owners.

For the shares of the Bank of France, Article II of the law of December 2, 1945, provided that the indemnity was to be equal to their liquidating value, but not higher than the average market price of the shares between September 1, 1944, and August 31, 1945. This average price was 28,000 francs per share. The normal liquidating value was later found to be about 70,000 francs, but was reduced to 44,000 francs on the basis of an evaluating procedure of dubious validity. The stockholder, of course, received no more than 28,000 francs. For the four great com-

mercial banks, Article VIII of the same law provided that the indemnity was to be based on the average market value for the period from September 1, 1944, to October 31, 1945, a period during which the nationalization of the banks had become a certainty.

In the case of power and coal, a different method was followed. The government decided first what percentage increase to allow over the average stock market prices of 1938, proceeding next to the selection of a base period that would yield such an increase. The initial decision was to pay the electrical and gas industries stockholders by multiplying 1938 values by 3.33, and the coal industry stockholders by multiplying the same values by 4.2. These proposed payments the finance commission of the Constituent Assembly found too low. Since the finance commission had exactly the same political color as the Constituent Assembly as a whole, as well as of the government, one is forced to conclude that its defense of the interests of the owners was due to the fact that they met in the same rooms where once Caillaux ruled. Thanks to the finance commission's efforts, the ratios were increased to 3.98 for electricity and gas and to 4.46 for coal (excluding the mines of Lorraine). For the power and coal companies whose stocks were not quoted on the stock markets, the indemnity was to be on the basis of the liquidation value of the enterprise, which was to be calculated on the same rigid basis as that used for the Bank of France.

Private owners might not have fared so badly after all, had these occurrences taken place during a period of relatively stable money. In England, few have suggested that the owners of the coal mines or of the railroads suffered any fundamental injustice. But France has been going through a violent inflation, and one is forced to conclude that, viewed in the light of 1948, French owners will in the end have received indemnities probably averaging less than one-third of what might be said to have been fairly due them.

Fifty-year amortizable bonds, or stock, have been used for the

payment of indemnities. For the Bank of France, the law of December 2, 1945, provided for 2-percent bonds. This was soon found to be too low, and a law of April 8, 1946, raised the rate of interest to 3 percent. For the commercial banks, the law provided for the distribution of variable dividend stock, the dividend not to be inferior to that of 1944. The subsequent law of May 17, 1946, provided that the dividend could be no less than 3 percent, and that this was guaranteed by the state. The same solution was adopted in the case of insurance companies.

A more complicated solution, and one more favorable to former owners, was adopted for power and coal. Here the principle of participation by the bondholders in the possible future growth of the industries was accepted, by providing that in addition to a fixed payment of 3 percent, for both power and coal, a certain percentage of gross total revenues—not profits—was to be distributed each year to the bondholders. For power, the percentage was to be at least 1 percent of total revenues, but could be more; for coal, on the other hand, the percentage was fixed at 0.25 percent. This could mean, in 1948, on the basis of estimated total revenues of 120 billion francs for the coal industry this year, an addition of 300 million francs to the 900 million representing the minimum interest to be paid on 30 billion francs' worth of bonds issued—in effect, an increase from 3 to 4 percent.

One final point should be noted. The law of December 2, 1945, provided in Articles II and VIII that, after nationalization, the proceeds of the sale of more than twenty shares of stock of the Bank of France or of more than 200,000 francs' worth of shares of commercial banks were to be blocked in special accounts whose disposition was at the pleasure of the minister of finance. Thus even medium stockholders were to have their assets frozen. This special disability was removed by the law of April 8, 1946.

IV

With the former owners out of the way, if not satisfied, the French state came into possession of an impressive total of economic assets. How were those assets to be managed?

The first basic problem was the organization of management. In England one of the more interesting recent phenomena has been the retreat of G. D. H. Cole and the acceptance by the labor government of the fact that in the management of nationalized industries the idea of interest representation had to be largely abandoned. Nationalization in Great Britain has meant the turning over of national assets to the nation, to be managed by as able a group of men as the government could find. These men were chosen on the basis of the effective contribution they could make to the good administration and advancement of the industry concerned. This meant in practice that the coal miners did not get the coal mines, and that a considerable body of Labour party and guild socialist doctrine had to be discarded, since it was recognized that the interests of the country at large were different from those of any particular group in it. But in France the idea of interest representation was accepted nearly everywhere, and, on paper at least, it provided one of the guiding principles in the organization of nationalized industries.

Each bank is managed by a board of directors composed of four appointees of the minister of national economy, four appointees of employees' syndicates, and four representatives of banking interests. Each insurance company is managed by three representatives each of the national insurance council, the state, the employees' and agents' syndicates, and the insured—twelve in all.

Electricity and gas, at the national level, are each run by a board of eighteen directors, appointed by the minister of industrial production and including six representatives of the state, six representatives of the consumers, and six representatives of the workers. At the local level, they are managed by boards of directors made up of four representatives of the national service, six representatives of the syndicates, and eight representatives of the consumers. Of these eight, six must represent the local collectivities. If further proof were needed of the hypnotic hold of proportional representation on the minds of politicians in Europe, it

might be added that these six have to be selected by the communities served in proportion to the number of their inhabitants.

Finally, in the case of coal, the top national agency is managed by a similar tripartite arrangement with six representatives each for the state, the consumers, and workers, while the structure of the operating bodies is evidence of the triumph of the Communist doctrine that the workers themselves should become the masters. Each board of nineteen directors is made up of six representatives of the national agency, two of whom are workers' representatives; six representatives of the consumers, of whom one or two probably represent the miners themselves; and seven representatives of the workers. The workers thus appear to have a probable minimum of ten out of nineteen members. The original government bill did not go so far, but owing to the unquestionable control exercised by the Communists in the coal fields, their point of view eventually prevailed.

Therefore, in theory at least, France has accepted the widest possible representation of interests, apparently without having given much thought to the possibility of paralyzing conflicts among those interests. But perhaps one should not overestimate the effective power of the boards of directors. The members are unpaid and they are unlikely to be in continuous session. It is probable that the real power of management will tend to be concentrated in the hands of the presidents or director-generals, who are full-time paid government appointees.

For each bank and insurance company the president is appointed by the minister of finance. For electricity and gas the two director-generals are appointed by the Council of Ministers upon recommendation of the board of directors. For coal the director general of the national agency is appointed by the Council of Ministers upon proposal of the board of directors, while for the local operating bodies the director-generals are appointed by the minister of mines on proposal of the board of directors.

It appears, therefore, that having proceeded first on the assumption of the right of all interested groups to participate in the man-

agement of nationalized industries, and the predominant right of the workers in the case of the coal mines, the legislators recognized next that for the sake of effective action a definite center of managerial responsibility had to be created, with final decision on its personnel to be made by the government, usually upon recommendation of the board of directors. One can imagine the sharp tensions and conflicts resulting from this arrangement.

Having thus disposed of the matter of interest representation, the French legislature accepted as the second basic principle for the organization of nationalized industries that of the division of functions. This can best be seen in the case of power, where an elaborate hierarchy has been established.

At the top we find a *Caisse nationale d'Équipement de l'Électricité et du Gaz*, with primary responsibility for the servicing of all the bonds issued to the former owners, as well as of all other bonds that have been taken over or that may be issued in the future. To this end, the *Caisse* is entitled to receive from the operating bodies all the sums needed for these purposes, including the variable percentage of revenues to be used in payment of the added interest to the bondholders. The *Caisse* is also entrusted, by Article XXV of the law of April 8, 1946, with the preparation of a plan for improvement and development of the electrical and gas industries. This agency emerges, therefore, as both the supreme financial and planning agency.

Next to the *Caisse* we find, first, a single agency known as the *Électricité de France, Service National*, to which is entrusted the production and transmission of electricity, and second, a number of regional agencies known as *Électricité de France, Service de Distribution*, charged with the distribution of power within each respective region. This is a functional approach which, interestingly enough, reminds one of the solution adopted in the Tennessee Valley, where to TVA are reserved the production and transmission of electric power, while to about 140 municipalities and cooperatives are reserved the distribution and sale of the power to the ultimate consumer. Whereas TVA has by now

settled contractually all problems arising out of the relationship between itself and the municipalities, and has defined in specific terms the rules which the latter have to follow in their operations and the prices at which they have to sell power, these matters are as yet undetermined in France. The principle of decentralization is, however, a sound one, which should work as well in France as it has in the Tennessee Valley, because of the large role in the affairs of these distribution agencies reserved to representatives of local communities.

In the case of coal, the division of functions is simpler and gives origin to two, instead of three, main types of agency. At the top we find the *Charbonnages de France*, national in scope. According to Article III of the law of May 17, 1946, the tasks of the *Charbonnages* are:

1. To supervise and coordinate the technical activities of the operating bodies, without, however, diminishing their juridical, financial, or commercial autonomy.
2. To present for the approval of the government a national plan of production and equipment for the coal mines, as well as to advise the government on all matters relating to the prices of coal.
3. To guarantee the servicing of all present and future loans issued for the satisfaction of the former owners or for the carrying out of the plan of improvement of production.
4. To serve as a research center for the industry and as a professional training center.
5. To act as arbiter in the settlement of disputes, which might arise among the operating bodies, and in particular to establish, if necessary, a plan of financial compensation for the various operating agencies in order to guarantee the financial equilibrium of their respective operations.

These operating bodies, to which we have often referred, constitute the second layer in the organization of the coal industry. They are the so-called *Houillères de bassin*, entrusted with the actual exploitation of the mines and the sale of the coal. Separate

Houillères have been created for each major coal field. According to Article IV of the law, they have the following functions:

1. To take over the direct management of the mines pertaining to their respective areas of operation.
2. To assure the equilibrium of their financial operations including the servicing of any loans they may have issued with the approval of the *Charbonnages*.

One apparent contradiction of the legislative text has to be noted. The law requires each *Houillères de bassin* to balance its operating and capital accounts. But the law also requires the *Charbonnages* to formulate a plan of financial compensation in order to realize artificially a financial equilibrium which might not otherwise exist among rich and poor *Houillères de bassin*.

v

There is indeed a remarkable degree of unreality about one important aspect of the entire body of legislative texts dealing with nationalized industries. All the texts assert repeatedly the principles of the juridical, administrative, and financial autonomy of the various bodies created by the laws. They restate endlessly the principle that their managements must follow industrial and commercial practices, that their operating and capital accounts must be balanced, that they must pay taxes along with everybody else and in the same measure. They have introduced the representation of consumers, of workers, of employees, of the "active forces of the nation," even, as Article XII of the bank law states with reference to the National Credit Council, of the communes and other local collectivities, of the families.

François de Menthon, a leader of the MRP, expresses his utmost satisfaction at seeing how few the direct representatives of the state are, and how many the representatives of the independent and varied forces of the nation. Ramadier rejoices that nationalization of industry in France has not meant the spread of *étatisme*, with the blighting influence of a central bureaucracy, but instead, the growth of truly autonomous groups in immediate contact with

the people and responsive to their needs. Yet, the practice of the first two years has been to assume that this autonomy was a childish joke of the theorists. Far from taking the financial independence of nationalized industries as the starting point, policies have been developed on the premise that those industries can never be anything but the weak financial wards of the state. The key word has been "subsidy," and the cost of these subsidies to the French government, by the fall of 1947, was well over 50 billion francs.

The recent decision of the government to cut off coal subsidies may indicate a change in policy. It is, however, more likely that, with different governments in office, there will be a continuous oscillation between the two extremes of running nationalized industries independently, with their costs paid by the consumers of their products, or of running them in effect as part of the government, with their costs paid by the taxpayers. The point to be made here is not that one alternative is better than the other, but merely that the concept of autonomy has been, shall we say, rather imperfectly realized. That this is so can be seen without going beyond the legislative texts now in force.

In the fields of power and coal, the nationalization laws provide for supreme administrative control to be exercised by a newly created *Chambre des Comptes*. At this point the idea of interest representation is abandoned. The members of the *Chambre* are full-time appointees, nominated by a decree of the Council of Ministers upon proposal of the president of the Council and selected from individuals well known for their wide experience in industrial management and in accounting. They are barred from the exercise of any other function or profession and are themselves to establish the rules of their own organization and procedure.

Within six months after the last day of each year, full financial accounts are to be presented to the *Chambre* by the various boards of directors at all levels. Within six months of the receipt of these accounts, the *Chambre* will issue a report on the regularity of the accounts and on the administration of the respective boards of

directors. The accounts will then be ratified in different ways. On the basis of these reports, for instance, the ministers of finance and of production will ratify the accounts of the *Caisse Nationale d'Équipement de l'Électricité et du Gaz*, and the ministers of mines, national economy, and finance, those of the *Charbonnages*, while the accounts of each *Houillère* will be ratified by the *Charbonnages*.

If the accounts of any agency close with a loss, the board of directors responsible for this state of affairs cannot be retained in office without the special deliberation of those entitled to ratify its accounts. Failing a favorable outcome of this deliberation, the board of directors has to be replaced within the thirty days following the publication of the report of the *Chambre*.

Thus the basic nationalization laws provide for a remarkable degree of control by this supreme administrative court, which is supposedly to function without fear, and free of any external political influence. Autonomy yields before the supreme national interest.

But two decrees issued on January 16, 1947, by the Socialist government of Léon Blum, for the purpose of establishing the "statuts" of the *Charbonnages* and the *Houillères* go even further in this direction. Their publication evoked the strongest criticism from the Communist Trade Unions, who felt that the prize of workers' control of the coal mines was eluding their hitherto firm grip, but they have not been modified.

The two decrees deal a serious blow to the last remnants of autonomy and also weaken decentralization, first by giving the Council of Ministers the right of dissolving the various boards of directors, and second, by requiring ministerial approval for many important board decisions. In the *statut* relating to the *Charbonnages*, Article VIII reads: "A decree of the Council of Ministers, issued upon the report of the ministers of mines, national economy and finance, can provide for the dissolution of the board of directors of the *Charbonnages de France*, if the board, after warning by the above-mentioned ministers, fails to fulfil the obligations which

are imposed upon it by Article III of the law of May 17, 1946." Article III lists all the major tasks of the board, so that failure to fulfil any one of them is sufficient reason to bring about dissolution.

Similarly, the *statut* for the *Houillères* provides in Article VII that the board of directors may be dissolved by a decree issued by the Council of Ministers, upon report of the ministers of mines and of national economy, and after hearing the board of directors of the *Charbonnages*, if the board, after warning, fails to fulfil its tasks under Article IV of the law of May 17, 1946, and, specifically, if it fails to achieve the production goals required by the needs of the nation's economy. The powers thus granted to the government are powers of life and death, and will permit the government to get rid of any board of directors of which it comes to disapprove.

But even if dissolution is not resorted to, the government can exercise a continuous check upon all important activities of the boards. The joint approval of the ministers of mines, national economy, and finance is needed by the board of the *Charbonnages* on all matters relating to the development of the plan of production and equipment for the mines, the opening of new pits, all budgetary matters, the establishment of profit and loss accounts, the issue of bonds, the status of personnel. On the regional level, each board of the *Houillères* has to seek the approval of the same three ministers before it can act validly on financial matters of all kinds and on the status of personnel not covered by the agreements with the miners' unions.

To conclude this recital of the drastic control measures devised to keep these "autonomous" bodies in line, mention should be made of the continuous parliamentary control established by Article VII of the financial law of March 25, 1947. Each year all accounts and reports of nationalized industries must be distributed to Parliament. The National Assembly and the Council of the Republic each appoint for each category of nationalized industry separate committees of sixteen members, eight drawn from the finance committee, and four each from the committees of indus-

trial production and economic affairs. These committees will have full powers of parliamentary inquiry and will present annual reports to Parliament.

VI

Leaving aside the irrelevant, it is perhaps possible to conclude by saying that nationalization in France was established, *first*, to achieve a redistribution and a new balance of power through the expropriation of certain powerful economic groups; and *second*, to help in carrying out a national plan of greater industrial production.

The first goal has been fully achieved; some very important old concentrations of economic power have been broken up, and new concentrations have been created. The location of the new concentrations, and therefore the use that will be made of the power, are still matters of doubt. The Communist effort to locate as many of them as possible in the hands of the workers, and, through the workers, in the hands of the trade unions, and through the trade unions, in the hands of the Communists themselves, seems to have suffered a setback after the early successes. Not only is autonomy on the way out, and with it any real measure of workers' management, but certain recent personnel changes have tended to establish the concept of the primacy of technical over political management.

Whether the second goal has been achieved is difficult to say. To date, nationalization has not notably helped either production or planning. On the negative side, we have the recent decision of the French government to stop certain development work in the electrical field, owing to the budgetary crisis. It is also becoming clear that the good production record in the coal mines has, up to the summer of 1947, been due mainly to the enterprise and zeal of the Communist Trade Unions, and not yet to the development of any new sense of loyalty among the miners towards the new owner.

In the field of planning, the Monnet Plan and not nationaliza-

tion has been the decisive element in so far as planning has exercised any influence in the direction of economic events. The plan deals with six basic branches of economic production. Of these, only two—coal and power—are nationalized, while cement, agricultural implements, transport equipment, and steel remain in private hands. No indication is available that the Monnet planners were confronted by any differences, resulting from nationalization or nonnationalization, in the difficulties of the problems they set out to solve. Nationalization was an irrelevant factor. Similarly, though special techniques were evolved for dealings with the nationalized sphere, there is no evidence that the plan has made greater headway in the nationalized industries than in the nonnationalized. The truth is that the plan has met everywhere with the obstacles that throughout Europe have created the present economic emergency. Their elimination will not be made easier or more difficult by nationalization.

The real significance of nationalization lies in the *use* that government will make in the future of the new power it has acquired. What that use will be no one can say for the moment with regard to France. We must be satisfied with the description of the instruments available to the governments of tomorrow.

(Cornell University)

PRIMITIVES AND PEASANTS IN INDUSTRY*

BY WILBERT E. MOORE

NO PART of the earth is now wholly untouched by industrialism or its consequences. Many areas are only now beginning the process of economic modernization, and many others are still affected by it only indirectly, but even the most "backward" areas have started the fateful "forward" march, under foreign or local impetus, and the pace will certainly accelerate rather than slacken. In this veering toward factory production and the protean machine a great many influences converge to affect the tempo and effectiveness of the change. Underlying them all, however, is the character of the labor force—not merely its size, but its attitudes toward disciplined, rationalized endeavor, its response to given conditions of existence. These responses, however changeable they may be, are crucial determinants of industrial development.

The extensive literature on the spread of industrialism contains numerous direct investigations into the cultural and psychological factors involved in that process; it contains also many incidental comments on this subject by students primarily concerned with other aspects of economic development. Further field work will assuredly be necessary for a thorough analysis of primitives' and peasants' responses to industrialization, but the fact remains that it would be uselessly wasteful to ignore the knowledge already gained. The following pages, therefore, present a brief survey of the information to be derived from existing works.

This information is contained almost solely in area studies, and

* EDITORS' NOTE—This is a brief digest, prepared by Elizabeth Todd, of a study made by Dr. Moore as part of a research project on "Attitudes of Native Labor Toward Industrial Work." The project is being conducted by Dr. Moore for the Institute of World Affairs and the Office of Population Research, Princeton University.

thus pertains to specific peoples and places and times. It is necessary, therefore, to determine the rubrics under which the mass of material can be examined most effectively in order to discover and appraise any general principles that it may contain. In the larger study from which the present survey is drawn, one of the principal objects will be to determine the significance of cultural differences, and thus it will be necessary there to consider the material primarily with reference to the various kinds of social systems that it represents. For the purposes of the present survey of the existent literature, however, it has been decided to put primary emphasis on the general conditions and attitudes that impede or induce a shift toward industrial labor.¹

Two lines of warning are worth emphasizing. First, it is of course only for the purposes of systematic analysis that broad social conditions and attitudes can be thus defined and isolated; in their actual operation they are intertwined in infinite variations. And second, since the choice of this method makes a considerable degree of generalization unavoidable, it cannot be too strongly stressed that the nonindustrial economies have a very wide range of technical and organizational complexity; that the form and degree of the impinging industrialism differ greatly in different localities, ranging from plantation agriculture and mining to the complex economies of Japan and the Soviet Union; and that there is a considerable variety in the modes of intercurrency that have thus far been evolved between nonindustrial and industrial ways of life. Less a warning than a regret is the fact that any information on "attitudes" and their causes is subject to the hazards of interpretation and deduction; scientific exactitude is difficult to achieve in regard to the nature and sources of personal feelings, and the literature is notably lacking in the concrete, objective data whereby inferences might be supplemented and confirmed.

¹ Bibliographical documentation has been omitted from the present summary for reasons of space, but a list of works that have provided material for this survey is presented at the end of the article.

Barriers to Industrial Employment

Before considering the various conditions and attitudes that cause primitives and peasants to accept industrial life, it is worth outlining the principal reasons why they do not do so. Aside from sheer ignorance of the industrial way of life as a possible alternative—which is to be found today in very few areas of the world—the barriers to acceptance of the new ways lie fundamentally in the disparities between the old and the new. These could be differentiated in many ways, but they will be considered here under the two simplest possible headings.

Attachment to the old forms. Attachment to traditional forms that offer security and the pleasure of familiarity is certainly not limited to undeveloped areas of the earth, but in those areas it is very pronounced. In one form or another, depending on the interplay of local conditions, it is found among primitive and peasant societies everywhere: in Africa, where the casual laborers among the Tale people of the northern Gold Coast, and among the Bantu groups farther south, return to their native villages after a period of work in mines or plantation agriculture or even factories, and continue to find in their tribal customs the source of social and economic security and family stability; in the Netherlands Indies, where again the pattern of casual labor and maintenance of community ties is conspicuous; in Indo-China, where the natives require considerable pressure or strong inducements to leave family connections, village relations, and claims on the land, however meager these may be; in Peru, where substantial employment needs, in urban manufacturing as well as in agriculture and mining, are predominantly filled by resort to various forms of indenture, providing for temporary or limited periods of service; in the old peasant economies of eastern and southern Europe, where long-established patterns of village cooperation and also property interests in the land, based on the rule of equal inheritance, give the peasant a sense of security that reduces the appeal of urban employment, even though these communities have for a long time been in relatively close contact with indus-

trial life; in India, where industrial workers in general tend to return to their native villages, and where the existence of village ties is an important source of morale even for those who stay in urban employment; in China, where the kinship structure offers such protection that factory employment, if accepted, is likely to be only a temporary expedient.

This strong tendency to cling to, or return to, old forms and habits does not mean that the primitive or the peasant is actively opposed to any change. But the evidence strongly indicates that he is much more inclined to accept changes operating within the structure he knows than changes regarded as a threat to that structure. And on this matter his fears are not unjustified. A shift, for example, from self-sufficient agriculture, or from a communal village economy, to commercial agriculture or wage labor on plantations may not mean a sharp change in technical procedures, but it is likely to be a greater break than is commonly supposed by the naïve administrator. It has far-reaching implications not only for the network of social relations within which the labor was formerly performed, but also for basic economic security: in industrial enterprise, dependent on the world market, employment is not as stable as it is in a primitive economy based on mutual aid.

This central problem of combining traditional security and economic change has given rise to a wide variety of transitional or compromise arrangements for the use of indigenous labor. The most common of these arrangements is the system of casual labor, whereby the native enters outside employment from time to time and meanwhile maintains his relations with his own community. This practice is prevalent not only in colonial areas but also in Latin America, China, and India. Although it may be a convenient means of recruitment where there is at best only a half-hearted interest in new forms of economic activity, it is a wasteful and inefficient system. In some places, as in parts of Africa, where there is a deliberate policy of segregating natives in limited reserves, the practice of using casual labor is based not

only on economic opportunism but also on attitudes of racial discrimination.

Among these compromise methods of grafting modern economic organization onto nonindustrial social organizations, one of the most interesting was that worked out in Japan. There the archaic familial and hierarchical controls, rather than being disrupted by the introduction of industry, were consciously utilized, as part of the policy of economic transition by deliberate plan. Labor recruitment was carried on through the families, and employment was frequently in small units formed on kinship bases. Here, too, industrial labor was commonly regarded as a temporary expedient, not only in the early stages, but to a remarkable degree even after the rise of great urban industries: the son entered a shop, often under the supervision of a relative, in order to give temporary financial help to the family, or the daughter worked in a factory long enough to accumulate a dowry. But the basis of the whole system, even in the larger establishments, was a quasi-feudalistic paternalism, with emphasis on the ultimate security of the rural family structure. In its degree of labor turnover and in its minimum development of skills this system was not efficient, and continued rural poverty helped to undermine its premises. Even before World War II it was unmistakably giving way to less personal arrangements, evidenced in the growth of a permanent urban proletariat. Nevertheless, this utilization of existing customs and forms of social life undoubtedly eased the transition to industrialism.

As a means of coping with the difficulties of economic transition in undeveloped areas, many experts have urged the establishment of decentralized and small-scale consumer-goods industries. This course, it is contended, would reduce to a minimum the interference with traditional patterns, and would avoid some of the less fortunate effects of the industrial revolution in the west, particularly the disadvantages of urban concentration. And in fact, whether for these reasons or for others, the idea has been put into practice to a considerable extent. In Indo-China, for

example, small plants were set up in rural areas by European administrators and enterprisers, apparently in response to the natives' reluctance to move long distances to urban centers; and they have been established in various parts of China, either as rural industries located near the supply of raw materials and surplus rural labor, or as fairly mobile industrial cooperatives operating in the interior during the Japanese occupation.

This method of introducing industrial work undoubtedly makes for easier recruitment of labor, and constitutes a smaller threat to traditional patterns of integration, than do larger and less personal enterprises. On the other hand, it may have certain disadvantages: the very acceptance of forms that developed in another context may operate to diminish purely technical efficiency; in small plants and domestic industry, demoralizing "sweating" practices are not unlikely to develop, as has frequently occurred in China; and the substitution of a new kind for an old kind of protective paternalism is not likely to promote among the workers a capacity for independence and self-reliance. The latter point raises, of course, a most complex question. It appears that individual autonomy is in some degree an essential aspect of the flexibility and dynamic drive that characterize industrialism; and at the same time it may well be that in western industrial life this autonomy, this divorcement from established controls and responsibilities and protections, has gone so far as to be subversive of its own ends. This is a problem in the philosophy and policy of industrialization, not a matter of concern in a factual review of existing conditions, but thoughtful observers in newly developing areas have been aware of its implications.

Lack of interest in the new forms. In turning now to the problems raised by a disinclination to accept new ways of life, we are not merely restating in negative terms what has been said about attachment to the old. Logically these are the two sides of the same coin, but functionally they entail different problems. The one arises from the fact that the familiar bases of assurance have no counterpart in the new life; the other arises from the

fact that what is offered in the new life, whether in the form of income and activity or in the form of intangibles such as personal relations and status, has no relation to the accustomed standards. Again the problem is not the absolute differences between the two ways of life in isolation, but their interrelations in active competition.

The most obvious reward of industrial life is wages, but the desire for wages depends on the desire for the things that money will buy — and also on whether the wages are sufficient to buy the things desired. In a society where status is based on attributes, inherited or acquired, or on goods that are not purchasable, or are not purchasable with money, wages alone can offer small inducement. To be sure, the situation is not so simple when money standards have once begun to replace the older values, or where commercial penetration has gone so far that some needs or desires can be fulfilled only with money. Then, as will be emphasized in a later section, wages may be a positive incentive to employment. But it may also be true that not all the members of the group have an interest in wage employment, and that the interest even of those who accept it is only limited or sporadic. Thus it is not infrequently found that natives are interested in industrial employment only long enough to acquire wages for the satisfaction of particular wants or needs that are important in their own society; higher wages then merely reduce the length of employment. Or the wages offered, and the range of goods and services that they will buy, may be considered insufficient to make up for the effort and estrangement involved.

Other, nonmonetary rewards of industrial employment may fail to be appreciated in much the same way. The particular kind of rational, technically precise adaptation of means to ends which is characteristic of industrialism produces a working milieu and a way of life that are not congenial to an individual who is unaccustomed to rational efficiency of this kind. An especially striking example is evident in India, where the caste system has resulted in a rigid definition of status and of the levels of consumption and

types of occupation that are permitted to each stratum. Many of these distinctions are now breaking down, but caste orientation is still a considerable barrier to acceptance of the more flexible and individualistic standards of industrial life; it is significant that in India industry obtained its first recruits largely from those who had nothing to lose, from the untouchables and the low-caste underlings. An interesting sidelight on the complexity of this problem is that in a colonial area the governing administrators may adhere to values quite comparable with those held by the upper strata of natives; thus productive labor was no more disdained by high-caste Hindus than by many of their British governors, the main difference being that for the Hindus it was frequently the only alternative to starvation.

Unlike India, China has no rigid system of stratification which acts as a barrier to new forms of social relations and social distinctions, yet the traditional Chinese social order was no more conducive to individualism. In China the family and kinship organization, not the individual or his caste, provided the effective social unit. In one respect, however, even the impersonal aspect of individualism is familiar to the Chinese and is respected by him: the socially honored civil servant was traditionally recruited by examination, and at least nominally the competition was open to everyone. It has been suggested that despite the many differences between industrial activity and the role played by the civil servant, this tradition of open competition for respected position might serve in some way to diminish the reluctance to change from reward-by-family to reward-by-merit. The continued effectiveness of the government-official ideal is evident in the fact that some workers have entered employment in government-operated factories under the mistaken impression that they were being admitted to the civil service.

Closely comparable to the dislike of industrialism for its disruption of familiar status arrangements and personal relations is dislike of its particular kind of discipline and routine. Life in a nonindustrial community may be subject to a great many con-

trols and responsibilities, but their operation is familiar: the rules are known and are regarded as legitimate. In industrial life the rules are based on principles that are strange and remote, and their legitimacy may be less evident than their power. Evidence on native restiveness under industrial discipline is not clear-cut, however, as it is difficult to distinguish between opposition to authority and opposition to particular abuses, or supposed abuses, in its exercise. Uprisings have occasionally occurred — even in Africa, where a work stoppage is a criminal offense — but it is uncertain that they signify any fundamental antipathy to the industrial process. There is not even any evidence of general hostility to the machine itself, as occurred in the early stages of western industrialization.

It cannot be overemphasized that the attitude toward industrial work depends on the specific situation: the nature of the particular preindustrial economy and of the new economic forms that are being introduced into that particular area. It is likely to vary also among the different groups in the indigenous community. The young, the unprivileged, the disaffected are probably the most amenable recruits, but their perseverance in industrial employment depends partly on whether it offers positive advantages as well as mere change. Older individuals, or those in a position of greater prestige, if they accept employment at all, may attempt to retain their former status and to view the new more rigorously in terms of the old.

Briefly, then, in each set of circumstances the new activities, and the rewards and relationships that accompany them, not only must compete with the accustomed ways, but also must show some promise of living up to their own potentialities. There is no ground for believing that there is in undeveloped areas an antipathy to industrialism as such. The interplay of two contrasting systems of values is too complex to allow of any such monistic interpretation. What we find is a dislike for certain aspects of industrialism, manifested with varying emphasis by different groups with different types and degrees of experience.

Propellants Toward Industrial Employment

Despite the barriers that may cause indifference or dislike for industrial employment, the fact remains that it is accepted, for longer or shorter periods, by larger or smaller numbers. In some measure the reasons for this acceptance are positive — active inducements that are strong enough to overcome any hesitation that may exist on other grounds. But the reasons may also be negative — a thrust of circumstances which causes wage employment to be a reluctant choice among evils. Whether in the west or in the east, whether among “civilized” or among “primitive” peoples, workers may be more pushed than pulled into new employments. Hunger and fear, acting as propellants, may be as powerful as the positive interests that act as magnets.

The circumstances that serve thus to push native workers into new productive activities as a reluctant choice among evils are of three general descriptions: decline of alternative economic opportunities; political pressures; and uncongenial social pressures in the native community. Under each of these general headings several different kinds of factors can be distinguished.

Pressure of population. In the decline of economic alternatives for nonindustrial peoples no factor is more important than the “pressure” of population which ultimately develops when given land resources are worked with given techniques — a pressure that is increased if western influence has raised the average life expectancy. Rural poverty and the periodic threat of famine are especially characteristic of mature civilizations built upon the economic foundation of agriculture and petty trade. Thus in India, Indo-China, and preindustrial Japan, for example, the limited employment capacity of the land was a significant factor in pushing workers out of rural villages into whatever factory employment they could find.

This result may in some instances be directly traceable to modes of inheritance that prescribe succession by a single heir (as was the case in England and Ireland). Equal inheritance by all heirs — a rule that is widespread in China, as it is in eastern and south-

ern Europe — is likely to prolong the period in which at least a minimum level of subsistence can be wrested from the land. Thus it is only in very recent times that the pressure of rural population in China has become so inescapable as to push workers into factory employment, despite the poverty and successive famines of agricultural life. The Chinese family system has also played a role in keeping the potential industrial worker on the land, for as a rule impoverishment must extend to the family unit as a whole before the individual is forced to the wall.

In colonial areas there have sometimes been more or less deliberate efforts to increase labor supply through governmental restrictions of the land available for native cultivation. Colonial policies on native land rights have varied widely, but except in the British West African colonies it has been a common practice to pre-empt at least part of the land for plantation agriculture or other uses by foreign employers. This policy pushes native agriculturists into employment under European management, and if it is carried out on a large enough scale, or despite a rising population, it may have this effect even if new land is set aside for native cultivation. Labor supply has been thus increased in the Netherlands Indies, for example, especially in Java. The same result occurs where natives are segregated in "reserves," as in British South and East Africa; as a rule these reserves are the poorer lands, and in addition they are continually subject to further reduction in the interests of European occupancy.

Even if land resources become inadequate, or have been made inadequate by colonial policy, a pressure of population would at least be postponed if agricultural techniques were concurrently improved to yield higher production with less land. But native agriculture is generally wasteful, of fertility and of area as well as of manpower, and it is not easily subject to change. In fact, uneconomic practices are sometimes rooted in requirements of the social structure itself. Thus in the South and East Africa native reserves the agriculture of the Bantu, which is based on cattle, has proved highly resistant to change because cattle are a

badge of prestige and an integral element in the marriage and kinship structure. What is sought is number rather than quality, and the result is overgrazing, deterioration of breeds, and increasing poverty that might have been mitigated by more rational methods. Thus it is from these areas that native laborers for the mines are most extensively recruited.

Loss of markets. No known economy is so completely agricultural that there is no development of specialized craft skills, if only as a part-time occupation; in old and complex though non-industrial societies such skills may even be integrated in a true market exchange. When outside manufactured goods appear in the community the native craftsmen, unable to compete in price or in quality or perhaps only in the appeal of novelty, may be forced to other employment. This development, familiar in eastern and southeastern Europe, has occurred also in the interior of China and in Indo-China. In India too, despite Gandhi's efforts to encourage domestic production of cloth and clothing, village artisans have been deprived of their function by the competition of manufactured goods, especially textiles. This displacement of artisans has been much less frequent in Latin America, but only because many of the Indian villages there are physically and economically isolated; as soon as market roads are built the process is as evident there as elsewhere.

Not only artisans, of course, but also individuals in more "professional" positions — such as chiefs, priests, witch doctors — may lose the market for their services through the intrusion of new ways. And very similar to the loss of markets for craft and professional skills is the loss of employment as a commercial trader. This development has little actual importance, however, for it is only in complex areas like India and China that non-industrial economies have significant market exchanges, and where such markets exist, competition from outside traders is less likely to displace native traders than competition from outside manufacturers is likely to curtail native production.

Direct coercion. The political, as contrasted with the economic,

pressures that push primitives and peasants into industrial employment are often directly coercive, particularly in colonial or dependent areas. In fact, a direct compulsion to labor, exercised by governing authorities or by private organizations under government sanction, has been a conspicuous characteristic of colonial, as of western, history. Forced labor in colonial areas is now imposed mainly for public works, but in the not very remote past it was also possible for private enterprise to benefit from government conscription, or even to conscript natives for its own purposes.

The direct coercion of native manpower has taken various forms. As a governmental practice it is likely to consist in a flat requirement that natives work at stipulated jobs, for longer or shorter periods, with or without pay — a requirement that has sometimes, especially in Africa, been carried out with the more or less strong-arm methods of impressment; the role of direct coercion in African labor recruitment is certainly declining, but it was reintroduced rather widely, and perhaps unnecessarily, as an emergency measure during World War II. In some areas, notably in certain Dutch colonies, much the same result has been achieved by imposing a "labor tax" — a levy payable in labor. Debt servitude systems such as peonage, under which individuals are involved in debt and are forced to work as a means of payment — often a quicksand endeavor — have been very widespread, especially in Latin America, where peons have been used on haciendas, in mines, and even in factories. But probably the most frequent method of compelling natives to work has been through the long-term indenture, often supported by penal sanctions.

Nominally an indenture is a voluntarily-entered contract governing the period of work, rather than a coercive method of acquiring labor, but actually force and fraud often reduced freedom of choice to a mere technicality. The possibility of delusion was increased by the fact that the place of work was distant, often overseas, from the locality where the indentured laborers were sought. Recruiters made all manner of assurances that were

not part of the contract, and among illiterate peoples the contract itself was often more a formal than an actual protection for the worker. Once he entered into the agreement and was transported far from his native village he had no effective possibility of escape from unforeseen conditions. The contract might not even include a time limitation, or it might be illegitimately extended without the worker's consent. In the past half century the possible abuses of indenture have been widely recognized, widely condemned, and widely prohibited, and the practice is now of diminishing significance. But it has not wholly disappeared. In Peru, for example, a form of indenture, nominally illegal, has still been practiced in recent years, not only in agriculture and mining but also in industry, and force and fraud have been common. The penal sanction for enforcing employment contracts was in effect in the Netherlands Indies until 1940, and is still widely used in Africa, especially for workers in the mines, and in Indo-China.

It may be worth stressing that also in Europe and North America various forms of direct political coercion (and even private coercion with political sanction) have in some periods been common as a means of obtaining labor, and even today conscription for military service, or for industrial service in wartime, leaves the individual little choice but to obey. In many countries labor is exacted from convicts, and even free citizens are often required to work on public roads. In the Soviet Union compulsory labor for prescribed purposes has been an important factor in the nation's spectacular industrial development. There the coercive recruitment of peasant labor for factory production has been partly an emergency measure for rapid internal development and wartime needs, but it is also, of course, a corollary of state control over the productive organization.

The effectiveness of compulsion as a means of recruiting labor is entirely dependent on the personal and institutional circumstances. Under some conditions the power exercised by the governing authorities, or by employers and their agents, may be a

legitimate exercise of authority, and be so regarded; and at the other extreme it may be, and be regarded as, an outright coercion by superior force. As a permanent measure for overcoming reluctance to work, compulsion is likely to be wasteful as well as callous, through high costs of recruitment. Even as a temporary measure intended to shift manpower into new economic patterns it may lose much of its effectiveness, as it has in parts of Africa, by inducing an active antipathy to the new forms where there was formerly merely ignorance or indifference.

Indirect coercion. Indirect political pressures on potential workers in undeveloped territories are exercised mainly through taxation, backed by penal sanctions for nonpayment. Head taxes or hut taxes which can be paid only in cash have been an almost universal practice in British Africa, and they have proved effective in drawing the natives into wage employment. This use of the tax power fits into European conceptions of law and ethics, but it may be resented by the native, and, like other "push" factors, it provides no assurance that the native, once employed, will be a satisfactory worker.

A rather different way in which political coercion may work indirectly to push potential workers into industry is through military conscription. Thus in the interior of China a considerable number of the local population chose to enter factory employment during the recent war, in order to avoid the army.

Traditional social controls. Even in primitive and peasant societies there may be some who rebel against certain customary social pressures, particularly if it is known that other customs exist. There are some South African natives, for example, who have left their villages for urban employment in order to escape certain religious and magical practices. In India, villagers have sometimes accepted labor in factories or mines rather than endure the ostracism resulting from infractions of caste rules; and those on the lowest rungs of the caste ladder have turned to industrial employment in considerable numbers, with the hope of improving their lot if only in small degree.

On the whole the traditional kinship organization of society acts as a barrier to industrial development, as it encourages the individual to rely on its security rather than on his own devices, but there are indications that its influence is occasionally resented. Thus in many areas — South Africa, the African Gold Coast, China — individuals have turned to industrial work as an escape from the kinship structure, with its claims on goods and services, its personal supervision, and its dictation of status and function. It is noteworthy that in China, where the wife came into the home of the husband's family, considerable numbers of women entered factories in order to escape the friction with the mother-in-law which was widely characteristic of this arrangement; possibly this factor is even a contributing reason for the predominant role of female labor in the developing factories of China, which sharply contrasts with the situation in India.

Such instances of rebellion are more likely to indicate a dissatisfaction with the personal situation than a hostility toward the kinship system as such; thus the female factory workers in China tried to duplicate the traditional family structure in their informal associations in the factory. And it is important to emphasize that the family itself, rather than any restiveness it may produce, may push the individual into industrial employment. This is particularly true in Japan, where it was not uncommon for employers to make a contract with the father for the labor of his sons and daughters — an example of how preindustrial social customs can themselves be used to facilitate the development of an industrial economy.

Attractions of Industrial Employment

The various pressures that drive an individual into industrial employment are essentially negative and possibly unstable. A reluctant decision to leave familiar types and contexts of work may be reversed by very slight changes in the real or fancied balance of alternatives. Thus it may be a fragile basis for labor recruitment unless there are also positive inducements. Needless to

say, there is only an analytical distinction between the conditions and attitudes that push and those that pull an individual into new economic activity; in the actual decision the skeins of motivation are likely to be so closely interwoven that they have no individual identity. Granted this, however, it is possible to distinguish the positive incentives from the negative thrusts, and to describe them according to the familiar economic-political-social differentiation.

Monetary wages. Among the primarily economic incentives the most effective is certainly wages. It is widely believed that primitives and peasants are characteristically contented with their lot and have little interest in turning to wage employment. In some circumstances this is undoubtedly true, yet there are few parts of the world where there has not been at least some commercialization of values under western influence.

In this connection Africa is particularly interesting, largely because of the variety of its technical and cultural development. It was mentioned above that in most of the Bantu societies of South and East Africa cattle are the standard of wealth, but the practice of payment in money has become familiar, and the result is a variety of compromises, transitional forms, and occasionally outright adoption of monetary standards. A quick review of some of the variations is probably the best way of describing the comparative importance of money wages as an incentive to employment.

Among the Bemba of Northern Rhodesia, with their rather informal political structure, aspirants for power as lesser chiefs have customarily attracted a following by distributing goods, and it was soon found that a period of wage service in the mines gave access to a new and different supply of commodities. Subsequently cotton clothes, available only through money wages, began to replace home-produced bark-cloth, which was inferior both in wearing quality and in comfort. Thus money has entered into the social, if not the economic, structure of the villages, though it is still regarded as useful only for specific kinds of purchases, and

the natives do not try to accumulate it. In other parts of Northern Rhodesia, where the natives have been engaged in wage labor more generally and for longer periods, monetary calculation and exchange have been more widely adopted.

In East Africa money has become quite generally a symbol of prestige, and its individualizing effects are evident in aspirations for greater monetary success. The Baganda of Uganda, who were formerly one of the most politically advanced of the African societies, have gone so far in adopting monetary standards that they pay wages to agricultural laborers and domestics from neighboring tribes, though even there cows have still a disproportionate value as symbols of wealth. Natives in the Ulunga Valley, in Tanganyika Territory, first entered wage employment in order to buy money with labor for the purpose of paying taxes, but now there are individuals who employ other natives at wage labor, rather than relying on the older forms of mutual aid; there, as among the Ngoni of Nyasaland, money has on the whole become a general standard of value and is not limited to specific purposes.

Perhaps the most extensive, and the most varied, adaptation to monetary exchange is in the Union of South Africa and its immediate recruiting areas (especially Basutoland, Swaziland, and Mozambique). At first the demand for native labor was primarily for domestic service and agriculture, but then came the tremendous and concentrated labor demand of the Witwatersrand gold mines, with the workers recruited mainly through the indirect coercion of the hut tax. The necessity for considerable numbers of young males to leave native agriculture for work in the distant mines has caused far-reaching disruptions in the traditional village cattle economy. There is a high turnover of laborers, which means that new recruits are constantly being brought into the wage system while former recruits carry some of the new attitudes back to their villages — a development that has a cumulative effect even though the villages that produce the laborers are mainly in areas that have been least affected by European contacts. Moreover, most contracts run for at least a year, and during

that time the worker is not only separated from his home and kin but is living in a very substantial urban center.

In the resultant development toward a money orientation four stages can be roughly discerned. At first the young natives seek employment only to pay the tax, and the village is little affected except that it is deprived of their labor. Subsequently it is no longer possible for families — through obligations of the father and gifts or loans from other kinsmen — to supply enough cattle for the bride price, and then the young men may seek work not only to pay taxes but to buy cattle, in order to complete the marriage agreement. The next step is the complete commutation of the bride price into its monetary equivalent, but this deprives the whole arrangement of its functional meaning in the village economy. The customs and rituals of marriage and kinship, the symbols of family cohesion, have been essentially altered, and finally the young men who leave the villages for wages must, if they return, work out new family arrangements without the buttressing of precedent and tradition.

In general it appears to be a mistaken notion that the earning of money is no incentive to native workers, and that their wants lie outside the area of commercial goods and services. Their uses of money may be different from those of the European, and may not conform with what the European thinks is good for the native, but certainly the uses exist. On the other hand, the amount of money that is commonly paid in wages is so little that many natives find its advantages unequal to the effort and uprooting that it requires. In their own villages they may have no access to the things they could buy with wages, but in the industrial centers their wages are not sufficient to buy much, and even that little may have less attraction when part of its price is disciplined and uncongenial living conditions.

In old peasant civilizations, where some degree of monetary exchange has long been part of customary practices, the situation is somewhat different. The peasant needs no sweeping change of attitude in order to be interested in wages as such — though again

a minor monetary advantage may not be enough if there are no other factors that push or pull him into a new occupation. Here the Soviet experience with rapid industrialization of a peasant economy is relevant. In the Soviet Union a complicated system of remuneration has developed, based partly on monetary wages and partly on privileges and other perquisites, and in its gradations an important factor is the quantity and quality of performance. Also, there are certain price differentials favoring the urban over the rural areas, and until very recently there was another multiprice system operating with various categories of closed markets. Such practices have certainly been intended partly to induce the peasants to enter industry, and to develop the ways of efficiency in the place of more leisurely rural habits. There is evidence that for this latter objective it has been found useful to increase wages in accordance with attempted rather than actual increases in productivity. It is not possible to know explicitly how successful these various measures have been in changing the peasants' attitudes toward industrial work, mainly because so many other factors are involved. Part of the efficiency and cooperative support that might otherwise arise from the wage inducements may possibly be negated by the complications of the market machinery and the absolute shortage of consumer goods.

In China the peasants' interest in money as a means of exchange has been increased by the introduction of cheap manufactured goods, with its disruptive effect on home production and village markets. It is difficult to know how important the monetary incentive has become as a basis for industrial recruitment, because economic pressures have produced a large supply of unskilled labor and wages are low. An interesting practice that serves to facilitate the orientation toward monetary standards is that of supplementing the workers' wages by "gifts," in the form of especially desired commodities, and subsequently commuting the gifts into outright money payments. In India, too, unskilled labor is cheap, and the importance of the monetary incentive as such is hard to distinguish. It is noteworthy, however, that in India

the effectiveness of that incentive is reduced where caste traditions limiting individual aspirations are effective in the urban environment.

On the whole there has been no effort to examine analytically the comparative importance of different wage rates as an inducement to attract primitives and peasants into modern economic activity. The problem is complicated not only by the fact that preindustrial peoples are not familiar with monetary values but also by the low-wage policy that is generally practiced, and by the pressures that dictate acceptance of whatever is offered. When the potential worker has some choice about accepting employment, wages may have direct importance as an incentive. When he has no choice, his incentive is survival, and the wage is merely a means toward that end. Whether it acquires additional importance, and thus serves as an inducement toward better performance or longer service, depends on the complex of personal and cultural factors involved — including the amount of the wage and the availability of desired goods and services on which to spend it.

Specialized skills. Not dissimilar to the ambiguity of wages as an incentive is the ambiguity of another inducement that may be considered economic, even though it is not directly monetary; the opportunity to develop and exercise specialized skills. Here too the potential importance of the incentive is blurred by the fact that it is seldom offered in any quantity, as well as by the fact that it involves unfamiliar standards. Indeed, in some areas this incentive is not offered at all. In parts of Africa, for example, natives are deliberately prevented from occupying more advanced positions. To be sure, the complex technology of industrialism demands talents and skills not characteristic of primitive societies, but there is abundant evidence that such relegation of the native to unskilled labor is not due to any intrinsic lack of ambition or ability, but rather to the color sensibilities or the economic self-assertion of the Europeans. Throughout southern Africa the demand for education exceeds the supply of schools and teachers.

Also in the Netherlands Indies, before World War II, there was a strong interest in education but very little opportunity to make use of it.

In general, it is unlikely that primitives or peasants in any considerable number turn to industrial employment primarily in order to learn new skills or utilize old ones. The tasks available to the worker untrained in industrial technology are for the most part routine and unlikely to constitute, in themselves, much inducement to the artisan, or even to a native who merely desires to develop a skill. But once the worker has turned to industrial labor, the possibility of using and increasing his skill may be an incentive to continued employment — provided the possibility exists at all, and he is not arbitrarily prevented from moving into higher positions as his ability increases.

National needs and aspirations. Political, as contrasted with economic, considerations may work in two main ways as an incentive to enter industrial employment. One is through the desire to support the political community in a time of emergency, specifically in wartime. Only for the Soviet Union and China, however, has this question been studied. In both countries this incentive seems to have had some importance in the recruitment as well as in the productivity of labor during World War II, though it is of course impossible to know how generally it was a decisive consideration in recruitment. In China it undoubtedly prompted many skilled workers from the coast to make the long and hazardous journey to the interior, whither the factories were removed, but its role in inducing new workers to enter the factory is uncertain.

Similar to patriotism in a time of national emergency is the response to purposes glorified through education and official propaganda in a time of rising national ambition. Thus in Japan's thrust to world power the notion of racial destiny was deliberately promoted to aid the process of industrial development, and it was tailored to fit the requirements of such powerful social traditions as the developed family structure and the cult

of the emperor; as a result of the combination of emotions thus invoked, service in the factories became a matter of familial, patriotic, and religious duty. In the Soviet Union, enthusiasm for socialist construction has been promoted with quite different appeals — emphasis on quantity and number in presenting collective goals, glorification of “socialist competition,” the offering of honorific titles and public rewards — but there, too, national aspirations have been made incentives to individual labor.

This potentially powerful incentive cannot, of course, be expected in dependent and colonial territories. Whether the natives in those territories today are stimulated by aspirations for independence from the governing powers is a different question; but even if such aspirations exist, they are scarcely likely to be expressed in enthusiastic labor for the industries controlled by those powers. And even in independent nations there may be no nationalistic enthusiasm for industrial labor: Thus in China, where industrialization is promoted with some reluctance, and largely because it is considered unavoidable in an industrial world, there is little effort to endow industrial tasks with a nationalistic emotional aura that would serve as a motivation for the individual.

New opportunities. Among the incentives that may be called social, rather than primarily economic or political, is the desire for new opportunities — more chance for independence, for prestige, for individual achievement. Here we have the positive expression of the merely negative desire to escape customary social controls, discussed above. The desire for new opportunities may be effective even if the economic incentive of earning monetary wages has no importance, but if the two exist together their separate outlines are scarcely distinguishable: it is impossible, for example, to assess the comparative importance of a desire for prestige and a desire for the money that provides that prestige.

In most primitive and peasant societies the individual's status and function are fixed, or change only according to a fixed process, the determinants being mainly factors outside his control, such

as age, sex, the position in the kinship or class structure; the preservation of the established structure is all-important, and change from within is strongly resisted. But once the members of such a society have acquired some knowledge of industrial life they are confronted with a quite different system of controls and values, in which status and function are much more susceptible of change, and are determined largely by what the individual does, rather than by who he is. The desire to benefit from the new possibilities is largely dependent on the degree to which the industrial way of life has modified the old forms. Moreover, the opportunities actually made available to the new industrial worker may be meager indeed in absolute terms, and perhaps also in terms of his own valuation, as was stressed above: the possibility for individual achievement may provide small inducement to enter industrial employment if workers are not fully admitted to the system of reward by merit. Nevertheless, the desire for new opportunities is an incentive that can be considerably influential.

Thus in the Soviet Union the possibilities for social and occupational advancement — evident in the system of rewards for outstanding individual performance and in the abolition of traditional class restrictions of opportunities (albeit new inequalities have been introduced) — have acted as a strong inducement to participate in industrial development. And in China, where women have held an inferior position in the traditional social order, work in the factories has the attraction of offering increased independence, and recognition as economic assets rather than liabilities; to some extent the same may be true for younger sons. Little evidence is available regarding the direct importance of this incentive among more primitive peoples, but it appears that sometimes industrial employment as such, regardless of its possibilities for individual achievement, may acquire a prestige value, especially if traditional avenues of achievement are no longer open. In Northern Rhodesia, for example, the prestige formerly accorded the successful warrior is now given — especially by marriageable

girls — to the adventurer who leaves his village for work in the mines.

Free choice of associates. Another aspect of industrial life that may have an appeal in recruitment is the possibility it offers of choosing one's companions. At least among primitive peoples this may well be less a primary incentive than an incidental result of a decision reached on other grounds, but the importance of personal associations has occasionally been stressed by observers of native workers; it is reported, for example, as significant among South African natives who have left tribal villages for the towns, and among the Tale peoples of the northern Gold Coast. There is also some evidence that if industrial employment offers little chance for personal relationships, or for choice in determining them, African natives are less likely to enter or to remain in modern enterprise. It may be that the motivating factor is a desire to continue existing personal relationships, rather than a desire for new ones. Thus in Northern Rhodesia the personal influence of natives already experienced in the mines may be a factor in recruiting new workers, and also in the associations that develop on the job.

Morale and Efficiency on the Job

Thus far we have discussed the various conditions and attitudes that impede or further a decision to enter or remain in industrial employment. It remains now to consider the worker as a functioning part of the new productive system. We are not concerned here with such matters as capital equipment and managerial organization and the quality of materials, even though they are essential factors in productivity, and to some extent affect the attitudes of the worker as well. The following pages will consider only the main working conditions, as distinct from technical and political conditions, which affect the productivity and the attitudes of labor in areas not yet fully industrialized. It would be merely frivolous to try to define how far these factors are causes and how far they are effects of job morale and efficiency.

Wages. This cause-and-effect reciprocity is very conspicuous in the matter of wages. The very low wages that are characteristic of industrial enterprises in areas of economic transition have various causes, not the least of which is the relatively low productivity of labor in such areas. But it seems that this works both ways, with low productivity due in part to the low wages offered. Among the factors that drive primitives and peasants into employment, the most prevalent, in all areas, is probably poverty, and numerous investigators have concluded that it is largely poverty which keeps their efficiency at a low level — whether for physiological reasons, as may be true in the very lowest levels of wages, or for psychological reasons, as may be true when meager pay seems worth only meager effort. Thus there develops a vicious-circle situation in which the employer is not likely to forgo the advantage in a plentiful supply of cheap labor, and the very factors that make labor cheap serve to diminish some of the advantage gained.

It would seem that a solution to this situation could be sought by offering higher wages as a reward for better performance. But for various reasons, including racial or ethnic discrimination, this is seldom attempted in undeveloped areas. Such encouragement becomes increasingly important as industrialization grows from small to large scale and as the native population becomes the source for all levels of labor, as in Japan and the Soviet Union; and those countries, particularly the latter, have largely succeeded in breaking the closed circuit of low productivity, low wages, low productivity. In such complex developments, however, the specific importance of the wage incentive cannot be distinguished from that of other influences that also help to develop skill and productivity. The Soviet Union has probably gone further than Japan in deliberately encouraging the unskilled to improve their efficiency, but there the wage incentive, while it has been strongly relied on, is only one of several that work in the same direction.

Skill. Except in the crudest forms of gang labor, modern enterprise demands a particular technical competence and a range of

general knowledge that are not provided in the training and development of nonindustrial peoples. And certainly a fundamental reason for low productivity among primitives and peasants, and thus for low wages, is their lack of training and skill in the tasks of industrial work. But this too is not a static fact, to be regarded as given and unchanging. If it is true that a worker is poorly paid because he is unskilled, it may also be true that he is unskilled because he has no possibility of using old abilities or of developing and using new ones.

As has been indicated, there is in newly developing areas little tendency to encourage better workmanship. It is seldom attempted to adapt for use in industry any handicraft skills that the workers may already possess — although some efforts of this kind were made in India during the war. And training in new techniques is likely to be extremely limited. Even where it exists, the opportunity of learning and the rewards in advancement may depend on the supervisor's preconceptions rather than on effort. In many areas advancement is next to impossible, or is possible only within a very narrow range — and even ambitious workers are not likely to apply themselves to increasing their effort and efficiency when there is little prospect of thereby improving their position. On the whole, it seems safe to believe that the level of skill and aspiration is in some measure dependent on the area of opportunity for their exercise.

There is ample evidence on this general failure, in undeveloped areas, to make full use of the potential capacities of indigenous labor. In India the caste system is partly responsible, for to some extent it has been carried over into industry, with resultant arbitrary limitations on position and type of work. In Africa the native worker is confronted with really unbridgeable barriers to advancement. It is reported that in China many employers are passively or actively opposed to job training, or even to the extension of literacy, for fear that the workers will become less tractable in accepting low pay and long hours. Even in Japan, despite the high value placed on craftsmanship, there was little possibility of

advancement, partly because of hierarchical restrictions and partly because of the peculiar decentralized organization of work; it is interesting to note, however, that the resultant narrowing and overspecialization of skills seems to have been, in Japan, less harmful to workers' morale than to industrial efficiency.

Ethnic discrimination. In the areas of economic transition the strongest barrier to workers' development on the job is the prevalence of ethnic discrimination, sanctioned by custom or even by law. By this practice, caste distinctions in work and in wages are introduced into an economic system that is basically incompatible with arbitrary limitations. The justification that there are racial or ethnic differences in the capacity to learn and use industrial skills has no shred of scientific validity. Cultural differences certainly exist — differences in training and attitudes — but these are neither innate nor immutable. Ethnic discrimination is most flagrant in colonies and in other areas of European commercial and industrial interest, but it sometimes develops even among the indigenous peoples themselves.

The consequences that follow from the practice of setting an arbitrary limitation to the position and type of work that are attainable are too familiar to require elaboration. It is sufficient to say that this policy in large measure reflects and augments the hazards to morale and efficiency that have already been discussed — the disadvantages proliferating from low productivity, low wages, and undeveloped skills.

Industrial discipline. The controls, requirements, and gradations of authority that accompany industrial routines are of quite a different order from those to which primitive and peasant workers are accustomed, and frequently they are a cause of restiveness, if only because they are unfamiliar — a situation, again, that is reflected in low productivity. Cultural differences in regard to conceptions of time, quantity, space, unquestionably make for differences in the orientation toward methodical work and punctuality. The Bemba of Northern Rhodesia, to mention an extreme example, have no conception of equal units of time, and

thus find it difficult to fit into the time discipline of industrial activity. And even where cultural differences are not so extreme, the disciplinary hierarchy of industrial life is generally of quite a different order from the traditional patterns of authority, and, particularly in factory work, newcomers are likely to have difficulty in adjusting to it. Loitering and rule-breaking, in defiance of factory discipline or in mere unconcern, are particularly notable in India and China.

It is noteworthy that in Japan the family basis of industrial recruitment and organization removed this particular cause of disaffection, at least until very late in the industrialization process. The importance of this factor in the Soviet Union is impossible to assess, as the tremendous and highly-rewarded increases in productivity associated with the shock brigades and Stakhanovites have overshadowed any difficulties that may exist in new workers' adjustment to industrial discipline. But it is at least open to speculation whether the attitude called wrecking is not as much a reflection of these difficulties as it is a matter of ideological significance.

Systemic inequities. The existence of favoritism and other inequities in the relations between management and workers would require no special emphasis in the present discussion were it not that this universal failure of practice to conform with theory takes various special forms in newly developing economies. In this context the special treatment accorded those who follow a prescribed line, be it political or religious or any other — such as the situation in the Soviet Union, where it appears that party membership and activities play some role in industrial recruitment and advancement, despite efforts to consider merit alone — is of less interest than those inequitable practices that are integral in a system of organization.

In large part these arise from the fact that, except in Japan and the Soviet Union, industrialism in undeveloped areas has usually been established under foreign capital and control. This fact is indeed an element in many of the problems that we have con-

sidered: the sharp distinction between foreign executives and technicians and native labor is one of the reasons why the workers' opportunities for advancement are so limited; the disparity between traditional and industrial patterns is in some measure due to the fact that foreign managers have shown a tendency to follow policies and forms of organization that are based on their experience at home, imposing them on situations where they do not fit; foreign domination is also an essential element in the problem of ethnic discrimination; and it has the additional result that any real or potential antagonism between management and labor is supplemented by the further antagonism between foreign and native. But a more specific result of foreign control is worth special emphasis in the present context. Sometimes the barriers of language and custom make it necessary to rely on local personnel for the lower managerial ranks, and this practice, despite its potential advantages, has frequently only augmented the difficulties of transition. Selection for such positions tends to be on grounds of convenience in communication rather than on technical capacity, and the behavior of these intermediaries is not always an aid to satisfactory industrial relations.

Thus in China and India it has been a common practice of administrators unfamiliar with local language and custom to use natives in the lower levels of management, and very frequently the result has been a systematic abuse of authority. In China the recruitment of labor through self-seeking intermediaries — who might keep as much as 80 percent of the wages they were paid for each worker — was widely practiced by the early European enterprisers, and was continued unofficially long after the system was abolished by law. In India under British rule there developed a "managing agency" system, under which the worker was recruited and supervised by Indian intermediaries; often the same individual performed both functions, and thus he was in a position to collect a fee for each worker hired, to exact a bribe from the worker himself, and then in his role as foreman to fire the worker in order to repeat his collections. The situation is similar where

native bosses are relied on in agricultural undertakings, as in Indo-China. Whether the favoritism and extortion of buffer functionaries drive the workers into active resentment or only into fatalistic resignation, their morale and efficiency are not thereby improved.

A somewhat different form of inequity has been particularly prevalent in China. It was stressed in an earlier section that the impersonal, reward-by-merit character of industrial life is not congenial to the Chinese peasant, who is accustomed to family hierarchy as the determinant of status. For this very reason, however, industrial enterprises in China have frequently taken over the family principle and made family connections the basis for any opportunities that are offered. Such nepotism is congenial enough to those who are favored, but it does not make for industrial efficiency or for strong working morale among those who fail to benefit from it.

Looking backward. Throughout the undeveloped areas, industrial enterprises have difficulty in maintaining a reasonably constant working force — even if poverty or other factors provide a continuous new supply. And no problem reveals more conspicuously than this the intertwining of the causes and effects of industrial morale. All the various factors that have been mentioned — and certainly more could be added — make it difficult for the workers to find security and satisfaction in the life around them, and therefore encourage them to stay away from the job or to throw it over altogether. But on the other hand, the various influences that make primitive and peasant peoples cling to their accustomed ways of life, or feel indifferent toward new ways, tend to make them look backward toward family and native village rather than actively seeking new roots in the new system.

Thus in the Netherlands Indies absenteeism averages more than half of the ordinary working time; in China and India it is not so great, but still substantial; it exists, in fact, even in the Soviet Union, among peasants unaccustomed to urban and industrial constraints. And labor turnover, resulting from the abandonment

of jobs, is almost as great in China, India, and Japan, where workers are presumably recruited on a comparatively permanent basis, as it is in the South African mines, where temporary service is the official policy. Both in absenteeism and in job abandonment a considerable factor is the stronger claim of nonindustrial pursuits and home ties. Very often the job was accepted in the first place only as a temporary necessity.

In Japan, as we have seen, this family orientation was deliberately utilized in the method of recruitment and the organization of work — a policy that made transition less abrupt but for that very reason made it easier to revert to rural security. To be sure, a considerable part of industrial activity was carried on in small-scale family enterprises in the cities, but this development of the principle, whatever its psychological advantages may have been, did not make for efficiency of operation, and in the period between the wars it was giving way to less personal and more centralized organization of industry.

When the old pattern of security has crumbled, or for some other reason is no longer a possible refuge, the worker must continue as best he can. And then, as we have seen, the chances are that his efficiency suffers from his dissatisfaction and his dissatisfaction is increased by the results of his inefficiency. It may be significant that opium smoking and the use of other narcotics are reported as being most common among displaced and dissatisfied workers; this observation refers particularly to Southeast Asia, but there is reason to believe that it has general relevance. And one further cause-and-effect interrelationship is worth mentioning. The widespread tendency of workers to remain oriented toward their native villages has been a factor in the neglect of urban living conditions for workers, as it has been regarded as a justification for failure to provide permanent and decent living quarters. And the wretched living conditions have served in turn to encourage the nostalgic tendencies.

New integrations. On the development of positive factors that might serve, through the workers themselves, to mitigate both the

causes and the effects of low morale and inefficiency, very little has been observed. Voluntary associations have of course developed among the workers — ranging from the banding together of African natives around a more experienced worker from the same village to the full-fledged labor organizations that began to develop in Japan between the wars, under strong government opposition. On the whole, associations that might have any relevance for labor discipline have been looked upon unfavorably by western employers in undeveloped areas. And at the same time, the western-style trade union has met little enthusiasm among primitive and peasant workers. The associations formed around the nucleus of the factory are likely to be informal and to follow the lines of preindustrial allegiances and cleavages, rather than focusing on the problems and requirements of the job itself. It may be that some form of association will develop which will synthesize the vestiges of the old patterns and the requirements of the new, but this is at present only conjectural. As was mentioned in an earlier section, collective aspirations reaching beyond the job situation to the society as a whole are capable of serving as a galvanizing factor. Quite possibly these may play a larger role than they have thus far—but the integrating effects of collective goals can hardly be looked upon as an advantage without knowledge of the nature of the goals.

The literature that has been reviewed in this survey makes it very clear that the introduction of industrial enterprise into hitherto nonindustrial areas entails many and sober difficulties in addition to the technical problems involved — difficulties that reach into the very roots of personal and group existence. In some directions solutions have been sought, with a greater or lesser degree of concerted effort. But in large measure the difficulties have been ignored and allowed to multiply; thus past practices have produced a formidable barrier to continued development along present lines. A transformation of economic relations, in the direction of greater understanding for the needs and aspirations of the indigenous peoples, is not, however, beyond possibil-

ity
ha
we
CR
inc
are
(Pr

Ack
F
1
All
(
All
C
Ans
th
Ans
Bay
C
Bel
2
Ber
P
Bie
In
O
Boe
C
Boe
n
Bro
O
Buc
Y
Buc
2
But
S
Che
S

ity; in fact, there are indications, here and there, that the attempt has been started. And while this process of reformulation may well be somewhat less than peaceful and gradual in the especially critical areas, there is nevertheless reason to believe that it will be increasingly attempted, for the morale and efficiency of workers are matters whose significance is not limited to the workers alone.

(Princeton University)

BIBLIOGRAPHY

- Ackerman, Edward, "The Industrial and Commercial Prospect," in Douglas G. Haring, ed., *Japan's Prospect* (Cambridge: Harvard University Press, 1946) pp. 175-207.
- Allen, G. C., *Japanese Industry: Its Recent Development and Present Condition* (New York: International Secretariat, Institute of Pacific Relations, 1939).
- Allen, G. C., *A Short Economic History of Modern Japan, 1867-1937* (London: George Allen and Unwin, 1946).
- Anstey, Vera, "Economic Development," in L. S. S. O'Malley, ed., *Modern India and the West* (London: Oxford University Press, 1941) pp. 258-304.
- Anstey, V., *Economic Development of India* (London: Longmans Green, 1931).
- Baykov, Alexander, *The Development of the Soviet Economic System* (Cambridge: Cambridge University Press, 1945).
- Belshaw, Horace, "Industry and Agrarian Reform," *Far Eastern Survey*, vol. 16 (July 2, 1947) pp. 153-56.
- Bergson, Abram, *The Structure of Soviet Wages* (Cambridge: Harvard University Press, 1944).
- Bienstock, Gregory, Solomon M. Schwarz, and Aaron Yugow, *Management in Russian Industry and Agriculture*, Studies of the Institute of World Affairs (New York: Oxford University Press, 1944).
- Boeke, J. H., *The Evolution of the Netherlands Indies Economy* (New York: Pacific Council, Institute of Pacific Relations, 1947).
- Boeke, J. H., *The Structure of the Netherlands Indian Economy* (New York: International Secretariat, Institute of Pacific Relations, 1942).
- Broughton, G. M., *Labour in Indian Industries* (London: Humphrey Milford, Oxford University Press, 1924).
- Buchanan, Daniel Huston, *The Development of Capitalist Enterprise in India* (New York: Macmillan, 1934).
- Buell, Raymond Leslie, *The Native Problem in Africa* (New York: Macmillan, 1928, 2 vols.).
- Butler, Harold, *Problems of Industry in the East*, International Labour Office, Studies and Reports, Series B, No. 29 (Geneva: 1938).
- Chen, Ta, "Basic Problems of the Chinese Working Classes," *American Journal of Sociology*, vol. 53 (November 1947) pp. 184-91.

- Clark, Colin, *The Conditions of Economic Progress* (London: Macmillan, 1940).
- Coulter, Charles W., "The Sociological Problem," in J. Merle Davis, ed., *Modern Industry and the African* (London: Macmillan, 1933) Part Two.
- Culwick, A. T., and G. M. Culwick, "Culture Contact on the Fringe of Civilization," in L. P. Mair, ed., *Methods of Study of Culture Contact in Africa*, International Institute of African Languages and Cultures, Memorandum XV (London: Oxford University Press for the Institute, 1938) pp. 38-45.
- Davis, Allison, "The Motivation of the Underprivileged Worker," in William F. Whyte, ed., *Industry and Society* (New York: McGraw-Hill, 1946) pp. 84-106.
- Davis, J. Merle, "The Problem for Missions," in J. Merle Davis, ed., *Modern Industry and the African* (London: Macmillan, 1933) Part Five.
- Davis, Kingsley, "Demographic Fact and Policy in India," in Milbank Memorial Fund, *Demographic Studies of Selected Areas of Rapid Growth* (New York: 1944) pp. 35-57.
- Davis, Kingsley, "The World Demographic Transition," in American Academy of Political and Social Science, *Annals*, vol. 237 (January 1945) pp. 1-11.
- Dobb, Maurice, *Soviet Planning and Labour in Peace and War* (London: George Routledge, 1942).
- Elkin, Henry, "The Northern Arapaho of Wyoming," in Ralph Linton, ed., *Acculturation in Seven American Indian Tribes* (New York: D. Appleton-Century, 1940) pp. 207-58.
- Fairchild, Mildred, "Social-Economic Classes in Soviet Russia," *American Sociological Review*, vol. 9 (June 1944) pp. 236-41.
- Fang, Fu-An, *Chinese Labour* (Shanghai: Kelly and Walsh, 1931).
- Fei, Hsiao-Tung, *Peasant Life in China* (London: George Routledge, 1939).
- Fisher, Allan G. B., *Economic Progress and Social Security* (London: Macmillan, 1945).
- Food and Agriculture Organization of the United Nations, *Report of the FAO Preparatory Commission on World Food Proposals*, Washington, 28 October 1946-24 January 1947 (Washington: 1947).
- Fortes, M., "Culture Contact as a Dynamic Process: An Investigation in the Northern Territories of the Gold Coast," in L. P. Mair, ed., *Methods of Study of Culture Contact in Africa*, International Institute of African Languages and Cultures, Memorandum XV (London: Oxford University Press for the Institute, 1938) pp. 60-91.
- Frankel, Herbert, *Capital Investment in Africa: Its Course and Effects* (New York: Oxford University Press, 1938).
- Frankel, S. Herbert, and E. H. Brookes, "Problems of Economic Inequality: The Poor White and the Native," in Edgar H. Brookes et al., *Coming of Age: Studies in South African Citizenship and Politics* (Capetown: Maskew Miller, 1930) pp. 129-82.
- Gordon, Manya, *Workers Before and After Lenin* (New York: E. P. Dutton, 1941).
- Great Britain, *Report of the Royal Commission on Industrial Labour in India*, House of Commons Sessional Papers, Cmd. 3883 (London: H. M. Stationery Office, 1931).
- Great Britain, Secretary of State for the Colonies, *Report of the Commission Appointed to Enquire into the Disturbances in the Copperbelt of Northern Rhodesia*, House of Commons Sessional Papers, Cmd. 5009 (London: H. M. Stationery Office, 1935).

- Greaves, I. C., *Modern Production among Backward Peoples* (London: George Allen and Unwin, 1935).
- Gross, Feliks, *The Polish Worker: A Study of a Social Stratum* (New York: Roy, 1945).
- Hailey, Lord, *An African Survey: A Study of Problems Arising in Africa South of the Sahara* (London: Oxford University Press, 1938) esp. Chapter XI, "The Problems of Labour."
- Hall, Sir Alfred Daniel, *The Improvement of Native Agriculture in Relation to Population and Public Health* (London: Humphrey Milford, Oxford University Press, 1936).
- Hall, R. L., *Economic System in a Socialist State* (New York: Macmillan, 1937).
- Hazard, John N., "Law, the Individual and Property in the U.S.S.R.," *American Sociological Review*, vol. 9 (June 1944) pp. 250-56.
- Hinden, Rita, *Plan for Africa* (London: George Allen and Unwin, 1942).
- Ho, Franklin L., and Hsien-Ding Fong, *Extent and Effects of Industrialization in China* (Tientsin: Nankai University, 1929).
- Hubbard, G. E., *Eastern Industrialization and its Effect on the West; With Special Reference to Great Britain and Japan* (London: Humphrey Milford, Oxford University Press, 1935).
- Hubbard, Leonard E., *Soviet Labour and Industry* (London: Macmillan, 1942).
- Hulse, Frederick S., "Technological Development and Personal Incentive in Japan," *Southwestern Journal of Anthropology*, vol. 3 (Summer 1947) pp. 124-29.
- Hunter, Monica, *Reaction to Conquest: Effects of Contact with Europeans on the Pondo of South Africa* (London: Humphrey Milford, Oxford University Press for the International Institute of African Languages and Cultures, 1936).
- International Labour Office, *Industrial Labour in India*, Studies and Reports, Series A, No. 41 (Geneva: 1938).
- International Labour Office, *Labour Conditions in Indo-China*, Studies and Reports, Series B, No. 26 (Geneva: 1938).
- International Labour Office, *Opium and Labour*, Studies and Reports, Series B, No. 22 (Geneva: 1935).
- International Labour Office, *Social Policy in Dependent Territories*, Studies and Reports, Series B, No. 38 (Montreal: 1944).
- Joffe, Natalie F., "The Fox of Iowa," in Ralph Linton, ed., *Acculturation in Seven American Indian Tribes* (New York: D. Appleton-Century, 1940) pp. 259-332.
- Levy, Marion J., Jr., *Some Aspects of Family Structure and the Problem of Industrialization in China*, unpublished doctoral dissertation, Harvard University, 1947; to be published in modified version by Harvard University Press.
- Lieberman, Henry R., "Interior of China Welcomes Change," Special Dispatch to *New York Times*, December 7, 1946, p. 12.
- Lin, Sung-Ho, *Factory Workers in Tangku* (Peiping: Social Research Department, China Foundation for the Promotion of Education and Culture, 1928).
- Linton, Ralph, *The Study of Man* (New York: D. Appleton-Century, 1936).
- Lokanathan, P. S., *Industrial Organization in India* (London: George Allen and Unwin, 1935).
- Mair, L. P., *An African People in the Twentieth Century* (London: George Routledge, 1934).
- Mandelbaum, K., *The Industrialization of Backward Areas*, Institute of Statistics, Monograph No. 2 (Oxford: Basil Blackwell, 1945).

- Mitchell, Kate, ed., *Industrialization of the Western Pacific* (New York: International Secretariat, Institute of Pacific Relations, 1942).
- Moore, B., Jr., "The Communist Party of the Soviet Union, 1928-1944: A Study in Elite Formation and Function," *American Sociological Review*, vol. 9 (June 1944) pp. 267-78.
- Moore, Wilbert E., *Economic Demography of Eastern and Southern Europe* (Geneva: League of Nations, 1945).
- Moore, Wilbert E., "The Migration of Native Laborers in South Africa," *Milbank Memorial Fund Quarterly*, vol. 24 (October 1946) pp. 401-19.
- Mukerjee, Radhakamal, *The Indian Working Class* (Bombay: Hind Kitabs, 1945).
- Nagoya Chamber of Commerce and Industry, *Industrial and Labour Conditions in Japan, with Special Reference to Those in Nagoya* (Nagoya: 1934).
- Noon, John A., *Labor Problems of Africa*, African Handbooks, 6 (Philadelphia: University of Pennsylvania Press, University Museum, 1944).
- Notestein, Frank W., "Problems of Policy in Relation to Areas of Heavy Population Pressure," in Milbank Memorial Fund, *Demographic Studies of Selected Areas of Rapid Growth* (New York: 1944) pp. 138-58.
- Orde Brown, G. St. J., *The African Labourer* (London: Oxford University Press for the International Institute of African Languages and Cultures, 1933).
- Orde Brown, G. St. J., *Labour Conditions in Northern Rhodesia*, Great Britain, Colonial Office, Colonial No. 150 (London: H. M. Stationery Office, 1938).
- Panandikar, S. G., *Industrial Labour in India* (London: Longmans Green, 1933).
- Parsons, Talcott, "Population and Social Structure," in Douglas G. Haring, ed., *Japan's Prospect* (Cambridge: Harvard University Press, 1946) pp. 87-114.
- Parsons, Talcott, *The Structure of Social Action* (New York: McGraw-Hill, 1937).
- Philips, Ray E., *The Bantu in the City* (Lovedale Press; no place or date indicated).
- Pilal, P. P., "Industrial Labour," in Radhakamal Mukerjee and H. L. Dey, eds., *Economic Problems of Modern Industry* (London: Macmillan, 1941, 2 vols.) vol. 2, pp. 107-34.
- Pim, Sir Alan, *Colonial Agricultural Production* (New York: Oxford University Press, 1947).
- Poblete Troncoso, Moises, *Condiciones de vida y de trabajo de la población indígena del Peru*, International Labour Office, Studies and Reports, Series B, No. 28 (Geneva: 1938).
- Propokivicz, S. N., *L'industrialisation des pays agricoles et la structure de l'économie mondiale après la guerre* (Neuchâtel: Editions de la Baconnière, 1946).
- Raman, T. A., *Report on India* (New York: Oxford University Press, 1943).
- Rao, B. Shiva, *The Industrial Worker in India* (London: George Allen and Unwin, 1939).
- Rao, B. Shiva, "Labor in India," in American Academy of Political and Social Science, *Annals*, vol. 233 (May 1944) pp. 127-33.
- Read, Margaret, *The Indian Peasant Uprooted: A Study of the Human Machine* (London: Longmans Green, 1931).
- Read, Margaret, *Native Standards of Living and African Culture Change*, International Institute of African Languages and Cultures, Memorandum XVI (London: Oxford University Press for the Institute, 1938).
- Richards, Audrey I., *Land, Labour and Diet in Northern Rhodesia* (London: Oxford University Press for the International Institute of African Languages and Cultures, 1939).

- Robinson, E. A. G., "The Economic Problem," in J. Merle Davis, ed., *Modern Industry and the African* (London: Macmillan, 1933) Part Three.
- Romeuf, Jean, "Le mécanisme des salaires en U.R.S.S.," *Les Cahiers de l'Economie Soviétique*, no. 3 (January-March 1946) pp. 2-12.
- Schapera, I., ed., *Western Civilization and the Natives of South Africa* (London: George Routledge, 1934).
- Shih, Kuo-Heng, *China Enters the Machine Age* (Cambridge: Harvard University Press, 1944).
- Shih, Kuo-Heng, and Ju-K'ang T'ien, *Labor and Labor Relations in the New Industries of Southwest China* (New York: Institute of Pacific Relations, 1943).
- Simey, T. S., *Welfare and Planning in the West Indies* (New York: Oxford University Press, 1947).
- Soh, Chuan-Pao, *La situation de l'ouvrier industriel en Chine* (Gembloux, Belgium: J. Duclos, 1937).
- [Taeuber, Irene B.,] "Colonial Demography: Formosa," *Population Index*, vol. 10 (July 1944) pp. 147-57.
- [Taeuber, Irene B.,] "French Indo-China: Demographic Imbalance and Colonial Policy," *Population Index*, vol. 11 (April 1945) pp. 68-81.
- [Taeuber, Irene B.,] "Hokkaido and Karafuto: Japan's Internal Frontier," *Population Index*, vol. 12 (January 1946) pp. 6-13.
- [Taeuber, Irene B.,] "Korea in Transition: Demographic Aspects," *Population Index*, vol. 10 (October 1944) pp. 229-42.
- Tawney, R. H., *Land and Labour in China* (London: George Allen and Unwin, 1932).
- Tawney, R. H., *Religion and the Rise of Capitalism* (New York: Harcourt Brace, 1926).
- Thurnwald, Richard C., *Black and White in East Africa: The Fabric of a New Civilization; A Study of Social Contact and Adaptation of Life in East Africa* (London: George Routledge, 1935).
- T'ien, Ju-K'ang, "Female Labor in a Cotton Mill," Supplementary Chapter in Shih, *op. cit.*, pp. 178-95.
- Timasheff, N. S., *The Great Retreat: The Growth and Decline of Communism in Russia* (New York: E. P. Dutton, 1946).
- Timasheff, N. S., "Vertical Social Mobility in Communist Society," *American Journal of Sociology*, vol. 50 (July 1944) pp. 9-21.
- Tinley, J. M., *The Native Labor Problem of South Africa* (Chapel Hill: University of North Carolina Press, 1942).
- United States Strategic Bombing Survey; Manpower, Food and Civilian Supplies Division, *The Japanese Wartime Standard of Living and Utilization of Manpower* (Washington: 1947).
- Van der Horst, Sheila T., *Native Labour in South Africa* (London: Humphrey Milford, Oxford University Press, 1942).
- Vinacke, H. M., *Problems of Industrial Development in China* (Princeton: Princeton University Press, 1926).
- Weischhoff, H. A., *Colonial Policies in Africa*, African Handbooks, 5 (Philadelphia: University of Pennsylvania Press, University Museum, 1944).
- Wilson, Godfrey, and Monica Wilson, *The Analysis of Social Change: Based on Observations in Central Africa* (Cambridge: Cambridge University Press, 1945).
- Wyndham, H. A., *Native Education* (New York: Oxford University Press, 1933).

ON STRIKES AND WAGES¹

BY EDUARD HEIMANN

THE current trend of public opinion against the aspirations of labor, which found resounding expression in the Taft-Hartley Act, is a reaction, not only to a number of avoidable abuses, which a wiser labor movement would long ago have suppressed, but also to methods of labor strategy which, though long established, are assuming an entirely new significance in the changing structure of society. To reexamine these fundamental issues of labor strategy against the background of social change is a long-range job for intelligent discussion. But the longer the range of the job, the more urgent it is to start the discussion at once, lest labor be caught in those disastrous effects of inertia of which the recent legislation gives a foretaste. It is in this context that we propose to deal with the problems of strikes and wages.

The theorists of the counterrevolution, from the Catholic-conservative Bonald to the fascist Spengler, have long predicted that liberal democracy would go down in the ever-sharpening contest between the unfettered group interests which it arouses and which, in point of fact, have created it to serve as the arena for their contest. In the recent developments at home and abroad, the least one can say is that nothing seems to refute that prediction. The life and survival of society require a cohesion strong enough to offset the tension of group conflict; but if the optimistic doctrine prevails that it is precisely the group conflict that will result in the integration of the whole, then there is no limit to which the conflict will not be permitted to go. This doctrine assumes two opposing forms. The first — that of liberal democracy itself — is static in the sense of hoping for the preservation and progress of precisely that liberal democracy through the free discussion and

¹ This article owes much to the critical suggestions of Drs. Adolph Lowe and Hans Neisser of the Graduate Faculty in the New School for Social Research, New York.

competition of interests; while the second — the Marxist form — is aware of the explosive nature of the doctrine and the ensuing practice, but trusts that beyond the explosion there can be only a new frictionless integration in an all-proletarian society. For the purpose of our discussion the second interpretation, in which the strike is preparatory to final revolution, can be dismissed, because it seeks stability beyond the pales of present society; our problem is the compatibility of economic conflict with stability within the present framework, even though this framework, to achieve stability, needs alterations.

I

In a society based on, nay, derived from, the pursuit of interests the strike is fully legitimate. It did not seem to be fully legitimate in the original form of that society, the competitive one, which was quite logical in prohibiting the "conspiracies" of the workers, however much this logic may have coincided with the class interests of employers. The counterrevolutionary theorists, it is true, had insisted from the very outset that competition could not last, that it was only a transition to monopoly, the hated enemy of liberalism. But even Adam Smith, in pleading for the legalization of the workers' coalitions, made no attempt to justify them within the principle of a competitive system. He simply argued that one could not in decency refuse to the workers what their employers arrogated to themselves—the right of combination for the defense of their interests. It was on this antisystematic basis that the right of coalition was gradually developed, two and three generations after Smith, as a legitimate form of the pursuit of private interests. And only one century after Smith, Lujo Brentano reinterpreted the right of coalition so as to make it compatible with the competitive principle by saying that the employer, demanding as he did many units of labor, represented in himself a coalition on the demand side, while the individual workers had to offer only one unit of labor each and thus were at a disadvantage unless they were permitted to oppose their coalition, an aggregate supply of labor,

to the aggregate demand of the employer for it. In the system thus envisaged, then, there is competition in the commodity markets, where sellers and buyers are on an equal footing socially, but one-sided monopoly in the labor market, in order to give labor equal economic power with its employer and thus make the law of demand and supply applicable without subjecting labor to social injustice.

This theory can conveniently be used as a starting point for a critical investigation. In Brentano's picture the workers' union, and the strike which was its last resort if negotiations failed, was to offset the power of the individual employer and thus close a gap of social inequity in the market system. A strike would bring pressure to bear on the employer by driving home to him the truth that his profit and his existence were dependent on the cooperation of labor. Such a strike in a competitive system would not normally affect the larger community, which could continue to buy from other firms. All the pressure of the strike would be concentrated on the struck firm so as to bring it to terms. The workers would be organized throughout the entire "trade," so that the union would support the strikers out of a fund into which everyone paid his dues while employed; the class interest in the camp of labor would match the competitive interest in the camp of capital, and the community would remain more or less unaffected. This is the logic of the weapon of the strike in its original use: the struggle between one firm and its workers within a competitive system.

Explosive dynamic effects, however, were not slow in developing. The solidarity of class interest began to outweigh the competitive interest in the camp of industry also, and employers' associations monopolized the demand for labor on a nationwide scale, thus changing the basic picture. If it is true that some degree of equity in the labor market could be secured only by opposing the full weight of a coalition of workers to any one employer, then the emergence of employers' associations destroys the barely attained equilibrium again and reestablishes the supe-

riority of the demand side over the supply side. Nor is this result changed when the workers broaden the attack to include the entire industry, the defense of which is already under unified command. The rise in the position of labor, and in the wage level, under the New Deal proves nothing to the contrary. As the long overdue organization of labor and its endorsement by the democratic government at last materialized, so as to oppose the already organized power of the employers, this could not fail to produce tangible effects; but far from going beyond the theoretical picture, these developments only established it where it had been lagging. The theory that organization of employers reestablishes their natural preponderance in relation to the strength of labor is not thereby modified.

This consideration is reenforced by certain technical implications of the most important economic argument in favor of the struggle of labor unions. The real wage rate in an economic development characterized by constantly rising productivity should normally move upward, but it depends on labor's taking the initiative to bring that about. Here two cases must be distinguished. The argument is easier to present in the less pure case, where the rising supply of goods sells at undiminished prices per unit of output: price is stabilized by an increase of money parallel to that of goods. In this case, the nominal wage has to rise in order to raise the real wage. The orthodox argument is that, as (marginal) product — that is, the product of the (marginal) worker, now representing more units of output — rises above the wage, it would pay the employer to hire more workers, and the resulting intensified competition for labor would raise the wage. But even in the absence of imperfect competition in the demand for labor that adjustment of wage to rising (marginal) product takes time, and meanwhile (marginal) product would continue to rise. So if one depended on the automatic adjustment in the market, the constantly rising wage would always lag behind the constantly rising (marginal) product; an aggressive labor organization is needed to speed the adjustment and to secure ever anew

for the workers the full advantages of their rising productivity.²

The employers' associations normally can confine themselves to the defensive, which is most advantageous in public opinion. A downward revision of wages does not depend on the employers' initiative to the same extent that an upward revision depends on the workers' initiative; the downward pressure of unemployment on wages is stronger than the upward pressure of the employers' interest in increasing his profitable labor force. It is true that powerful obstacles prevent the wage from going down all the way; but the reasons are in the structure of the labor market, as explained by Keynes, rather than in the relative strength of the employers' and workers' associations. The upshot seems to be that the advantage has shifted back to the employers with a widening of the labor front.

The argument looks slightly different but no less impressive in the pure case, where the volume of money in circulation is not permitted to expand with rising productivity of labor and expanding quantities of goods. In this case price per unit of output should fall, in accordance with the fact that the unit of output now represents less labor. In other words, the real wage rises by a drop in prices rather than by a rise in the nominal wage. The orthodox argument is that the increasing competition of goods for money will bring this about. But again the realist will observe that, at the very best, it takes time for competition to achieve that result,

² See my book, *Soziale Theorie des Kapitalismus* (Tübingen 1929) p. 200. It may be pertinent to delimit this proposition from the recent theory of labor unions in this country, which makes the size of profit the criterion of whether a rise of wage can be "absorbed" by industry. L. Albert Hahn, in his article, "Wage Flexibility Upwards," in *Social Research*, vol. 14 (June 1947) pp. 148-67, is right in arguing that price and profit have the function of determining the direction and volume of production and must not be absorbed lest the steering mechanism of the system of capitalism be put out of gear. But in practice, the unions are far from claiming for labor "the" profits; they try to annex the extra profit in excess of what may be regarded as normal profit. Theoretically the above reasoning leads to the criterion that such profit as comes from a difference between marginal product and wage should be claimed for labor, as its rightful due under capitalism. The oft-repeated reference of the unions to rising productivity seems to suggest that they have that criterion in mind, although they certainly do not apply it in a discriminating manner.

if it can be achieved at all in the presence of imperfect competition. Thus, in the long run, the level of prices will always be higher at any particular moment than is justified by the level of productivity at that moment; again, the real wage will constantly lag behind constantly rising productivity. Hence, again, an aggressive labor organization will be in a position to bring economic and political pressure to bear on employers with a view to dragging prices down, and hence, even more than in the first case, the emergence of business associations, in the commodity markets rather than in the labor market, will prevent the adjustment and disturb the equilibrium.

This case, because of the inflationary tendency that exists in the world, is less realistic than our first one, that of controlled inflation, but it is even more instructive.³ In the first situation, the unions would have to take special action on behalf of labor alone to raise the nominal wage, no matter what happens to the nominal and real incomes of other groups; whereas in the second case, labor would simply act as the trustee of all consumers' interest in lower prices that would enable unchanged incomes to buy increased quantities of goods. This is not even all. Inasmuch as such action would prevent an unproportional rise of profit in rate and volume, it would be a truly stabilizing factor in the economic system, coincident with the public good. There is no doubt that labor, if it has the choice, should choose this alternative. But both cases have this in common: they show the dependence of competitive stability on special labor action, and the frustration of such action and such stability by the emergence of employers' organizations.

This entire analysis, however, has not yet considered the most important element in the change from strikes against individual firms in competitive industries to industrywide strikes—namely, that the public, formerly an onlooker, is now drawn into the conflict because the industry has to shut down. This, in point of fact,

³ Naturally, under a pure gold standard, if productivity rose in all industries, including gold mining, at the same rate, the production of all, including that of money, would also expand proportionally, as in Cassel's utopia. But we are off the theoretical gold standard and have managed currencies.

is the aim: to increase the pressure on the industry, which may be able to withstand it for a long time, by the pressure on and of the public, which may not. The firm loses money, which it may expect to recover after the strike, but the public loses goods, which cannot be recovered or replaced. Thus the supposition is that the public will force the industry to concessions that will make it possible for the workers to return to their jobs. It would follow that the prospects for an effective strike are the better the more menacing the grip of labor on the throat of the community, such as in coal, railroads, tugboats.

It is this very menace, however, that may be so much resented as to backfire. The public, the potential victim of the menace, is not, in the first place, an economic magnitude, such as the organizations of labor and capital may be considered to be; it is a political magnitude, which is to say that its reaction is more likely to be in the realm of public policy than of economic pressure. This in itself need not mean that the public will react to labor's economic threat with a political threat to labor; often enough the public has reacted in the desired way by bringing political pressure to bear on employers and legislatures out of sympathy with labor's complaints and aspirations. But there seems to be little doubt that the tide is turning, as the attack on the public becomes more and more frequently labor's strategy to gain labor's ends. There have been several cases in which labor explicitly spurned the idea of alleviating special hardships caused by strikes — for example, the coal and tugboat strikes; special hardships on hospitals and the like obviously increase the pressure.⁴

⁴ Telephone strikers, on the other hand, were very considerate. On a previous occasion the present writer analyzed the problem in two opposite examples, the strike of the chocolate workers in Hershey, Pennsylvania, and that of the transportation workers of Shanghai. The chocolate strike was broken, and the strikers thrashed and driven back to work by the enraged dairy farmers, whom the workers had not thought of notifying when depriving them of the daily sales of their milk to the factory. The reverse happened in Shanghai, where the bus and streetcar drivers continued to operate their vehicles, but refused to collect their fares, thus enlisting the laughing support of the public, and deserving it by the evidence of their awareness of responsibility to the community. See *Communism, Fascism, or Democracy* (New York 1938) p. 208.

It is difficult to say to what extent the unfortunate strategy is still suggested — in some European countries rather than in the United States — by a popular version of the theory of labor value, according to which all economic value is exclusively the product of labor. If that were the case, a strike would be designed as a demonstration of professional pride, to drive home to the public who the real producers are. But this drink has become stale in recent times. Not those who do the manual operations under strict orders are the producers, according to Veblen, but those who give the orders, who plan the thousandfold interlockings of the thousandfold manual operations and understand and direct the working of the whole process — the engineers. The only group of workers to whom this does not apply are the really skilled, and the most conspicuous of these are the miners, whose singular position and honor the emergencies of recent years have tellingly illustrated: in Germany, the miners now receive four thousand calories a day, three times the normal ration; in England, they are clearly on their way to a position of privilege; and in the United States, they are ahead of all other workers in their gains. That no other group of workers can emulate them is precisely a result of the decay of skill and professional pride under modern technology, as a whole, and of a relative decline of the economic and social position of labor as compared with the rising importance of the new middle class. And this trend is certainly not reversed by stoppages. Far from proving the special qualifications and importance of the workers, stoppages rather suggest that it is as easy to stop a machine as it is difficult to operate it: any rowdy can throw a monkey wrench into it. At the very best, what a major strike does prove is the sheer weight of great numbers.

II

Veblen's scathing criticism brackets the workers' organizations with business as bargaining, rather than producing, agencies. Both make a living in connection with production but they are not competent to operate production; they depend on the engi-

neers to do that which neither of them understands. And if Veblen is right in extending the notion of sabotage, first derived from certain practices of labor, to the entire business world, with its monopolies, protective tariffs, advertising, and depressions, then strikes clearly come under the same heading and complete the parallelism. This is an ominous classification. According to this view, the two main groups connected with production are organized for a sabotage designed to increase their respective shares. That is, society lives under the constant threat of imminent destruction. How long can society continue to live that way without trying to do something about it? This is the grave question posed for labor in a business society.

The economic life of society depends on an orderly cooperation of capital and labor, however they may be organized. In the rational society of liberal democracy they are expected to cooperate voluntarily for reasons of well understood self-interest. But while it certainly is in their rational interest to cooperate, it is also in their rational interest to try to improve the terms under which they cooperate, and this interest is served on both sides by what Veblen calls "conscientious withdrawal of efficiency." Two factors determine the income of either group: first, the volume of the national income and output; and second, their relative share. While the former depends on their steady cooperation, the second depends on their struggle, in which each one expects the other to do the cooperating for the sake of the total income to be divided between them. Rational society depends on the cooperation of the strong and the weak, but on the terms set by the strong; and it is logical that each side tries to be or become the strong one and thus widens the battlefield, which is the life of society. This is the real theory behind the AFL program of "free labor unions in a system of free enterprise," once the religious and ideological tradition of social cohesion has been fully consumed and the nakedness of the rational interest alone is in charge of society.

This is why the critics — conservative, communist, and fascist

— grant liberal democracy only a brief span of life: it will be torn to pieces, they argue, by the clash of the organized interests which it invites to take charge. And that is why the present condition is so terrifying, not only in France, but also in this country; it is much less so in England where the strength of the much derided tradition of social cohesion as such has so far prevented the full rationalization of society and seems to permit the country to go through crisis and socialization without too much of a social strain.⁵ Where social rationalism is fully developed, and all social guarantees and fixed values are withdrawn, no special group of the nation can be held responsible for the predicament because the movement forces every group to adopt rational methods for the defense of its existence. An old German proverb says that one must howl with the wolves.

The strike of labor, naturally, is a most spectacular attack on the life of society. It is not, however, the primary or the most dangerous attack of that kind. That distinction clearly goes to the strike of capital. The parallelism as well as the differences between the two must be correctly understood. Contrary to the strike of labor, which is obviously a deliberate concerted action on the part of many, the strike of capital appears as an act of God, like an elementary catastrophe, an earthquake, or a flood; consequently, it is given an objective name — depression, crisis, or the like. It does not consist in any concerted action by the many; it is the joint result of many individual actions given the same direction by the same experience. But that this cannot be too weighty a difference is best seen from the consideration that it would be precisely the "higher rationality," as Schumpeter calls it, of concerted action in maintaining investment that would go far toward restoring profit in general to an adequate level, thus making any needed reorganization in special sections much more easily attainable. If this was not always clear it is certainly clear today. In other words, the spectacular lack of concerted action is a kind of concerted action too. The difference between

⁵ See Adolph Lowe, *The Price of Liberty* (London 1936).

the withdrawal of capital from investment and that of labor from work then shrinks in importance. There are other differences, naturally, which prevent the parallel from being driven too far. Profit is a net return, while wage is a gross return; the former can go down to or below zero, while the latter cannot. On the other hand, wage invariably is a reward for effort, while profit is not necessarily that. But from the point of view of an inquiry into the present condition and future prospects of liberal democracy, it is the similarities between the two that matter: both capital and labor are withdrawn from production for reasons of inadequate rewards in production. In other words, the freedom of the private interest in both cases means the freedom to disrupt society for the benefit of that interest, with a view to relatively and absolutely improving its share in the national income by reducing that very national income.

From this parallelism the great argument in defense of the strike of labor emerges. Intolerable in logic and morality as the principle of the strike is, it is only the replica, both historically and theoretically, of the strike of capital.⁶ Since freedom is interpreted as a private right to improve one's lot by an attack on society, a free society cannot remain free if it curbs the exercise of that right by labor and protects its exercise by capital. A case could be made for the opposite program, on two different grounds. One could argue that the freedom of man should have precedence, in case of conflict, over the freedom of property, the two factors, labor and capital, being on an equal footing only in regard to economics, not in regard to social ethics. But this argument is plainly beyond the principles of liberal democracy. What is immanent to liberal democracy, and hence more important in our discussion, is the second argument: the freedom of capital to strike is vastly more disruptive than that of labor. Only the established custom of treating it as an act of God rather than

⁶ This term was used by Arthur Dahlberg in *When Capital Goes on Strike* (New York 1938). He limited the use of the term to the hoarding of purchasing power, but the nonutilization of productive equipment by withholding working capital should come under the same heading.

man-made prevents a statistical comparison of the losses to the community due to depressions with those due to strikes of labor. Moreover, the most distinguished living economist, Schumpeter, who cannot be said in any sense to be anticapital, has emphasized in two works divided by almost three decades that, even if we accept the wave-like fluctuations of economic activity as natural, as he does, crisis and depression would still be avoidable. That is, they are man-made, to be attributed to the right of property holders to improve their condition by hurting society. If, and as long as, this right is regarded as a natural expression of freedom in liberal democracy, the corresponding far less harmful freedom of labor must not be curbed. To that extent the program of free labor unions in a system of free enterprise is logical.

But it is not good strategy in the long run because neither one of these two aspects of freedom is likely to remain accepted for long. To defend the right of labor unions to strike by defending the right of entrepreneurs to produce depressions is unsound, because the latter right is under attack too, and clearly from a point of view sympathetic to labor. Also, if that argument holds, the strategy, which originated in a period when free enterprise was in undisputed control and the labor unions were struggling for recognition, becomes more and more a defense of the vested interests of labor unions at the expense of labor. It is small comfort that that program, being the program of a junior partner, still has the advantage of logical consistency over the program of curbing labor's right to strike while at the same time freeing business from meager controls — a plain violation, in spirit if not in letter, of the basic principle of equality before the law and indefensible on any count but that of the superior right of the strong. The general trend of public opinion even in this country, disregarding short-run fluctuations, is toward some control of business cycles; and this would imply some control of labor, for reasons to be discussed presently. Control of business and unqualified freedom of labor to strike clearly would leave labor out on a limb.

In other words, one has to envisage that long-range transformation toward which society seems to be heading, and the place of labor in it. The right to strike is the extreme form, in the field of labor, of the freedom of private interests as a principle superior to the cohesion of society. This extreme form of freedom cannot survive long; but the reduction of freedom must not be driven to abrogation. To save essential freedom the excesses of an unbalanced freedom need to be curbed. It is the glory of democracy that it makes it legal to complain of oppression by public and private power and to organize for defense against it. Labor's right to strike remains an essential part of essential freedom if its excesses are curbed. No matter whether property is private or communist, there is invariably danger that labor will be squeezed by managers or by their deputies, the lower functions by the higher ones. Lenin, who in general looked askance at freedom, did appreciate the special function of labor unions for the defense of labor against managers; only under his successor was the independence of labor unions abolished and the unions made part of the governmental structure in the administration of labor. This must not be. On the other hand, nationwide strikes or the threat of them cannot remain a routine instrument of everyday policy if business is deprived of the right to produce booms and depressions, both of which destabilize the position of labor today. Yet revolt against oppression is an inalienable moral right, and in a democracy legal channels are kept open for it. The extreme form of revolt remains the strike. Such a dangerous right, however, must not normally be made use of; it is, rather, the last resort.

It need not be said that, as strikes have become industrywide or nationwide, the older type of strikes against oppressive conditions in single plants has not at all disappeared. And they will be just as permissible in the democratic future, whatever its organization, as they are today and as they used to be. The difficulty lies with those strikes which do, and are designed to, affect the life of society. But the principal grievances against the present economic society, which gives rise to such strikes, are directly or

indirectly connected with business cycles and will be removed with them. Thus the reasons for strikes will decisively diminish. At the same time, of course, the attainment of the adequate wage is problematic not only in inflation or deflation, and it may be suspected of requiring the weapon of strike. We are thus led to a discussion of wage in the economy of the future.

III

It was shown above that the labor unions have an indispensable function in a developing capitalistic system: to adjust wages to rising (marginal) products. The argument was given under the assumption of competitive conditions, but certainly loses none of its strength if industrial monopolies are presupposed. If unopposed by labor the monopolies would keep wage down; and if they are countered by monopolies of labor there is, even under static conditions, the well-known margin for the determination of wage between a lower and upper limit, depending on the relative strength of the contending parties, which in turn is determined primarily by substitutabilities. The margin in itself justifies a struggle for the wage; the stronger the monopoly of labor the higher the wage will be within that margin. Free labor unions in a system of monopolies (free enterprise) make sense.

The scene changes, however, in the controlled or regulated economy. If the latter is monopolistic in form, it still is strictly bound to a rule of policy which leaves no economic margin to be filled in by the tug-of-war of opposing central organizations. The rule is that price has to cover, not exceed,⁷ marginal cost, and that cost itself — that is, the prices of the factors of production including labor — has to be so set as to clear the markets of the factors. There is no room in such a system for strikes to determine wage within a margin of economic indeterminacy. If the

⁷ The controversy between those who teach socialist pricing to cover marginal cost and those who insist on average cost including overhead has ended with a slight edge of theoretical strictness in favor of the former, but in such a manner as to include the overhead under marginal cost in the long run; see Joseph A. Schumpeter, *Capitalism, Socialism and Democracy* (New York 1942) p. 176.

system is less strictly planned, it will still be true that one sets certain targets of production to achieve full employment, and that one must watch the price and income structure, because any change in relative incomes — such as by inflation or deflation — disturbs production in a system where prices, or profits contained in prices, direct production. The income structure determines the structure of production and cannot be left to contingencies of semipolitical negotiations and strikes. Barbara Wootton, in her *Freedom Under Planning* (Princeton 1945) stressed the other side of the same proposition, in production rather than in demand: a planned structure of production requires a planned wage level for that production to be financially feasible. (None of these propositions has anything to do with the question of private or socialized property; whatever profit or interest emerges would always go to the owners of capital, be they private owners or the organized community.)

It would be an error to say that collective bargaining, supplemented by the pressure of strikes, had no objective criteria to go by that would bring it nearer the objectively required rate of wages. It has such criteria in the dynamic processes of the market, which both parties watch and try to make use of in pleading their respective causes. It is essentially two different movements that become relevant for the negotiations. One is the secular upward trend of productivity discussed above. The other is the short-run cyclical fluctuation, and wage contracts are generally compromises designed to protect the parties from possible unfavorable developments by yielding certain advantages of possible favorable developments. But nothing of this kind is to be expected under the new regime, since the regime cannot even be inaugurated so long as the strike of capital continues to produce cyclical fluctuations. On the contrary, the new regime for wages is intimately tied up with an economic reorganization designed to perpetuate one transient phase of the cycle, the phase of full employment.

Two decades of business cycle discussion have rubbed in the

fact that full employment, considered the normal condition by all preceding theorists with the signal exception of Karl Marx, is a short-lived rarity of a self-defeating nature. It is self-defeating, because it is a highly dynamic phase of a highly dynamic system, leading straight up to the next and opposite phase, the downswing. Without going so far as to suggest any single cause for the various economic depressions of the past, and of the possible future, it is clear that one cause has been, and may be again, that wages — and the prices of raw materials — rise more in proportion to other incomes and prices and thus produce that disproportion which the downswing is then called upon to correct. This point is not made by Hayek alone. Karl Marx generally assumes, in the second volume of *Capital*, that accumulation of capital is attended at first by rising wages; and the mechanism of the industrial reserve army is described as drawing more workers into employment, as capital increases in volume, thereby raising wages and diminishing profits, until this very reduction of profits stops accumulation and throws employment and wages back to the starting point. Naturally, the advocates of free enterprise have in recent years been insisting that full employment is a program incompatible with free enterprise and that a moderate volume of unemployment is indispensable to keep wages in line. In other words, free market conditions under full employment may be such as to bring prosperity and full employment to an early end. It follows that, to perpetuate that phase, the dynamic upward urge of wages must be kept within bounds; a wage ceiling is required in a system of full employment. Indeed, if prices and incomes are to be under control, wages alone cannot remain outside. This is a very trivial proposition. But it is hardly discussed by economists⁸ and is naturally dreaded by unionists as invalidating their hard-won acquisitions.

The more one sympathizes with the unionists, however, the

⁸ Barbara Wootton seems to be fully aware of it (*op. cit.*, p. 115), but thus far, Hans Neisser appears to be the only one to have written about it; see "Realism and Speculation in Full Employment," in *Planning and Paving for Full Employment*, ed. by A. P. Lerner and F. D. Graham (Princeton 1946).

more one must remind them that this is not the first time this has happened to them. Labor protection and social security deprived the unions of essential and cherished functions precisely because the work of the unions had succeeded in convincing the state that these functions were essential. True, the unions found substitute functions of no less importance in collective bargaining, and no comparable substitute is in sight as the hoped-for stabilization of production and employment again moves in on them and generalizes the function they had built up as specific to themselves. But that is the way of history and of life itself. Veblen regarded the unions as integral to the business system, which is organized for bargaining, not for production. If they wish to serve a cause which is greater than they, they will not cling to what they have contributed toward betterment of a world in which democracy was shaken by underproduction and unemployment, but will seek reorientation by looking for the place of labor in a democratic world of full production and full employment.

VEBLEN AND MARX

BY BERNARD ROSENBERG

THESE is much disagreement as to whether the work of Thorstein Veblen did or did not derive from Marx. What Veblen himself had to say on this matter may be gleaned from his lectures at Harvard University in April 1906, entitled "The Socialist Economics of Karl Marx and His Followers."¹ In these lectures Veblen made explicit his opposition to certain aspects of Marxism while admitting, perhaps with a touch of irony, that *in toto* Marxian thought was "characterized by a certain boldness of conception and a great logical consistency."² For it is precisely in the matter of logic that Veblen felt himself at variance with Marx. He rejected Hegelian rationalism and contrasted Marx's dependence upon it with his own Darwinian position. Veblen's work stands for a complete break with classical economics. This is ostensibly true of Marx as well, and yet, according to Veblen, Marx took an uncritical attitude toward the principles of natural liberty and natural rights, notions that Veblen repudiated again and again. Even Marx's theory of surplus value, which in Veblen's opinion can be traced to Ricardo, William Thompson, and other utilitarians on the one hand, and neo-Hegelianism on the other, he found unacceptable. Marx's view of history was teleological; Veblen's was not. Marx saw a resistless movement toward socialism; Veblen discerned no such inevitability in the social process. And finally, Veblen branded Marx as a "romantic philosopher,"³ and strongly implied that socialism was tenable only if recast in terms of Darwinism, that is, with emphasis on blindly cumulative change instead of dialectical sequence.

¹ See Veblen, *The Place of Science in Modern Civilization and Other Essays* (New York 1919) pp. 409-56.

² *Ibid.*, p. 409.

³ *Ibid.*, p. 430.

At least by his own attestations at this mature period in his career,⁴ Veblen categorically dissociated himself from orthodox Marxism, and his objection to the Social Democrats was no less emphatic. He accused them of having succumbed to jingoism and militarism, especially in Germany, and feared that a similar infection would spread throughout the socialist movement. How then has it come about that one conventionally refers to Veblen as just another, albeit an ingenious, Marxist? The answer lies in one point of congruence which is vital to all that stems from it. Both men agreed on the determinative importance of what they called the state of the industrial arts. Interestingly enough, each denied what his work affirms—that he regarded technology as very nearly the exclusive cause of every societal phenomenon, which had, in consequence, only a superstructural reality. Thus Engels said in one of his letters: “Marx and I are partly responsible for the fact that at times our disciples have laid more weight upon the economic factor than belongs to it. We were compelled to emphasize its central character in opposition to our opponents who denied it, and there wasn’t always time, place, and occasion to do justice to other factors in the reciprocal interactions of the historical process.”⁵ Similarly, Veblen asserted that “it is assumed that in the growth of culture, as in its current maintenance, the facts of technological use and wont are fundamental and definitive, in the sense that they underlie and condition the scope and method of civilization in other than the technological respect, but *not* in such a sense as to preclude or overlook the degree in which these other conventions of any given civilizations in their turn react to the state of the industrial arts.”⁶

These protestations cannot be ignored. They demonstrate indisputably that each man was aware of more than one causal

⁴ By this time Veblen had already written his most substantive studies, *The Theory of the Leisure Class* (New York 1899) and *The Theory of Business Enterprise* (New York 1904).

⁵ Karl Marx and Friedrich Engels, *Selected Correspondence* (New York 1912) p. 273.

⁶ Veblen, *The Instinct of Workmanship* (New York 1914) p. vii.

factor. Nevertheless, in their work they seldom exhibited this awareness. We are constrained to agree with Max Weber who maintained that Marxism was "an untenable monocausal theory and thus prejudicial to an adequate reconstruction of social and historical connections" and also that it raised a "segmental perspective to paramount importance by reducing the multiplicity of causal factors to a single-factor theorem."⁷ Disclaimers are in the nature of afterthought. For the most part, Marx and Veblen were technological determinists. In this matter there is some justification for lumping them together as Sims does under the rubric of those who believe in "the automatic process" of social change.⁸ For all his differences with Marx, on this issue Veblen was closely allied with him. His criticism of Marxian metaphysics was trenchant and to a large extent valid. Moreover, within the framework of what must be regarded as their common error, he would appear to have been more correct than his great predecessor, for while Marx and Veblen may equally be accused of the reduction fallacy, Marx went further and insisted that the substructure of technology and the superstructure of archaic institutions would soon come into a state of equilibrium, whereas Veblen frequently stated his skepticism with regard to any such outcome. By the time they issued the *Manifesto* in 1848, Marx and Engels doubtless believed in the imminence of a communist revolution. But Veblen, dealing with the irrational as Marxists do not, could foresee an indefinite disequilibrium, a cultural lag extending itself in perpetuity. In a discussion of John Bates Clark's economics he wrote: "Men are congenitally over-sanguine. . . . It turns out that the laws of (human) nature malevolently grind out vexation for men instead of benevolently furthering the greatest happiness of the greatest number."⁹

This point of view, which in the face of recent developments really seems to be sound, is a flat contradiction of what Veblen

⁷ Max Weber, *Essays in Sociology* (New York 1946) p. 47.

⁸ Newell Leroy Sims, *Problems of Social Change* (New York 1939) pp. 300-02.

⁹ Veblen, *The Place of Science* . . . (cited above) p. 229.

said on other occasions. Veblen, in fact, represents a curious combination of inherent pessimism, such as that expressed above, and an optimism forced upon him by the nature of his analysis. Nor is the pessimistic note, as Dorfman suggests,¹⁰ apparent only in his last phase of despair. It runs through all of Veblen's work. It explains his satire and gives sense to his cynicism. It also renders a decided optimism, which is particularly striking in such books as *The Theory of Business Enterprise*, all the more unnatural. Such general statements, however, may be greatly clarified by a careful examination of Veblen's most important works.

II

One of the earliest and most suggestive essays is entitled "Industrial and Pecuniary Employments."¹¹ In it Veblen foreshadowed the basic differentiation between classes that gradually came to dominate his thinking. He began by challenging the classical idea that there are three factors of production: land, labor, and capital. This formula, for one thing, rests on a belief in providential order and, for another, looks upon mere acquisition as part of the productive process. Neither of these assumptions was admissible to Veblen. He advanced the theory that modern economic activity is controlled by the very acquisitive elements conceived in most quarters to be incidental features of social production and consumption. The hard and fast distinction between industrial employment, which is productive, and pecuniary employment, which is not, here makes its initial appearance in what was to be a frequent and brilliant demonstration. Veblen recognized that there are people in noneconomic occupations, but for the most part he regarded them as superfluities.¹² Members of the army and the clergy especially represent this group. His

¹⁰ Joseph Dorfman, *Thorstein Veblen and His America* (New York 1934) p. 467.

¹¹ Veblen, *The Place of Science* . . . (cited above) pp. 279-323.

¹² A major exception to this rule is the university professor, whom he hotly defended in *The Higher Learning in America* (New York 1918).

inquiries, however, were concerned with those within the economic sphere itself, among whom the undertaker, the speculator, or the banker (much later he was to say the absentee owner) is characterized by the fact that his contribution to the material welfare is nil. Those whose sole preoccupation is business and whose one aim is profits are useful to nobody and are detrimental to the community at large. Their fiscal or financiering norms rest firmly on the institution of property. They wish to buy and sell; it is distribution that matters to them, not production. The businessmen necessarily come into conflict with those who actually seek industrial efficiency, the former impeding consolidation, the latter struggling for its attainment.

Veblen pointed out that the first consequence of this reasoning is to dissociate the two ideas of productivity and remuneration. The most lucrative positions seem to be those which are least serviceable to mankind. Thus, if a law of natural selection were operative in society, the pecuniary class would be eliminated. The natural elimination of an undesirable class also presupposes a beneficent order — onward and upward — such as Veblen was constitutionally unable to accept. Economic deterioration is possible and does occur — Spencer and the other meliorative philosophers notwithstanding. Hence in some measure Veblen was dependent on Marx,¹³ although what he said was recast in a peculiar jargon. Veblen, however, was not taken in by any romantic idea of progress. The tension between an anachronistic ruling class and the underlying population exists — but it may never be resolved. This was his great insight. It measures Veblen's stature as a twentieth-century thinker who felt bitter disappointment in a world of absurd destruction. That he occasionally lapsed into the more stereotyped way of looking at social phenomena indicates little more than his position as a transitional figure. Having broken away from much that was held sacred

¹³ In the characterization of business as a matter of selling dearer and buying cheaper, he even quoted from *Capital*; see Veblen, *The Place of Science . . .* (cited above) p. 297.

by another generation, he was not quite able to grasp the new approach, though he approximated it often enough.

III

The Theory of the Leisure Class resists criticism in many ways. Few readers are able to pierce the obscurity of Veblen's style or to cope with his indirection and ambiguity; indeed, for a long time, the public was satisfied to regard him as a sesquipedalian buffon. Veblen protested objectivity and seldom exemplified it. The implications of disapproval in this book, as in all his others, he continually and somewhat tiresomely insisted were apparent but not real. When Veblen remarked that the modern gentleman is "gifted" with ferocity and that he reverts to savage habits, we are actually asked to believe that there was no deprecation in his voice. Of course there was, and the necessity for caution in presenting such wholly unorthodox views is entirely understandable.

Veblen claimed that he was examining economic matters per se. He admitted the possible aesthetic or poetic value of what may be materially unserviceable to the community. But the ascertainment of what is serviceable in itself involves a preconceived notion regarding it. Veblen's Olympian pose camouflages a collection of norms which have to be picked out of his verbiage.¹⁴ When methodological and stylistic problems combine in the work of a quasi-scientific satirist there is every chance of misunderstanding him. This is especially true of *The Leisure Class*, which has been popularly received and widely misunderstood. But there is a corrective to the misapprehensions that are bound to occur this way, and it is contained in *The Theory of Business Enterprise*. The lay reader hardly knows this study and yet it is the most

¹⁴ The mere presence of such values as serviceability marks Veblen off from a sociologist like Max Weber, about whom Mannheim rightly observed: "In his *Wirtschaft und Gesellschaft*, (he) made it his central task to work out this stratum of purely 'objectively' perceivable relations, in order to arrive at such a non-evaluative objective field of sociology" (Karl Mannheim, *Ideology and Utopia*, New York 1946, p. 167).

influential polemic Veblen ever wrote.¹⁵ Tugwell refers to it as one of the ten books that have been decisive in shaping twentieth-century thought.¹⁶ It is a sober and sociologically clear, if economically bewildering, presentation. The chapters on loan credit are full of complex mathematical formulas which suggest Veblen's contempt for his reader. In any case, whole sections of the inquiry are left unexplained, but fortunately they do not obtrude upon Veblen's sociological dicta.

Here are the familiar antinomies. Modern civilization is comprised materially of the machine process, which is good, and investment for a profit, which is bad. The norms are implicit but unquestionable. That these two forces are exclusive of each other is as unambiguously stated in *The Theory of Business Enterprise* as in any of Veblen's books. This assumption is at least arguable and probably invalid, for businessmen contribute something to production even if they do not want it to be entirely unimpeded. Veblen's moderate statement concerning the importance of technology, however, is quite unobjectionable: "To a greater extent than any other known phase of culture, modern Christendom takes its complexion from its economic organization."¹⁷ Machine process is defined in the broadest sense to include the work of inventors, navigators, mining experts, civil and mechanical engineers, and, in short, all those who have replaced manual dexterity with a reasoned procedure based on scientific knowledge of the forces employed. Where craftsman-like skill used to be essential, mechanical standardization now prevails, controlling not only goods but also services, such as transportation. All the parts of this process are interdependent so that a disturbance in any one of them can derange the whole. In the precapitalistic era, industries were dispersed, isolated, and relatively independent. Eighteenth-century England had such

¹⁵ Rexford G. Tugwell estimated that as many people read it in any given year as read Newton's *Principia* or Darwin's *Origin of Species* (*New Republic*, March 29, 1939, p. 216).

¹⁶ *Ibid.*, p. 216.

¹⁷ Veblen, *The Theory of Business Enterprise* (cited above) p. 1.

an economy, wherein, for the most part, owners maintained an immediate supervision over both the pecuniary and the productive aspects of their business. Now all of this has become so complex that the most delicate balance must be kept, disturbances prevented, and adjustments made. And the businessman is in control of this situation.

In a chapter on business principles Veblen refined his dichotomy. He again attacked the natural rights doctrine and the philosophy of John Locke. When workmanlike qualities were predominant, men like Locke could conceive of God as the Great Artificer. But now that the handicraft phase of production has been replaced by impersonal machines, God is thought of in different terms, if at all. The idea that man owns what he creates, in much the same manner as God Himself, is attached to an epoch in which petty trade and not high finance held sway. The main feature of contemporary economics is corporate manipulation. Competitive bidding for credit is calculated to enhance the volume of business but not necessarily the amount of capital goods. To a very large extent loans represent fictitious industrial equipment, their *raison d'être* being to afford the borrower a differential advantage over his competitors. A corporation is now capitalized on the basis of its earning capacity. Its properties and debts belong to a group of persons who are cut off from the managers, and when preferred stock is a large part of a capital this separation, Veblen avowed, is irrevocable. Twice removed from the public interest, the main effort of those in control is to effect an advantageous discrepancy in price.

Veblen found, in fact, and it is the leitmotif of his work, that all Western institutions rest preponderantly on business principles. This is strikingly true of politics. Domestic and foreign policy, police surveillance, the administration of justice, military and diplomatic service are chiefly concerned with business relations. The very foundation of common law in America and England is natural liberty, and under this dispensation, of all the rights granted none is more prominent than the right to private prop-

erty and a correlative protection of it. This idea has been more completely accepted in the United States than anywhere else; here pecuniary obligations are considered sacred. In fact, most obligations — domestic, social, and civil — are transformed into and can be fully discharged only on a monetary valuation. Moreover, as Thurman Arnold has said, "to a greater extent than elsewhere public esteem [in the United States] is awarded to artists, actors, preachers, writers, scientists, officials, in some rough proportion to the sums paid for their work."¹⁸ Patriotism is the sentiment by means of which the government manufactures approval of its basically undemocratic machinations. According to Veblen, the modern state whose origin lies in the clannish solidarity of feudal lords is today an instrument of business. Since the creation of a world market this indissolubility of interests has been unmistakable. Contending political parties exist, but they really represent superficially divergent lines of business policy. The common maxim that trade follows the flag, which Veblen would have inverted, expresses the closeness of an interlocking relation between commercial and military policies. Trade is the handmaiden of war which is waged mostly to benefit business. The people, however, usually believe that they somehow share in the residual gains that come from war, and they support it enthusiastically. Politics, religion, and business — the first two under the aegis of the third — foster more and bigger wars. They can be terminated under present conditions only by industrial collapse and national bankruptcy.

The abolition of such evils as war — which are only symptomatic — can be effected by those for whom it is a disadvantage. The higher ranks of skilled mechanics are filled with such men, who are more than mechanical auxiliaries of the machine process. Their habits of thought are most clearly in accord with the theoretical or metaphysical presuppositions of modern material science. They are skeptical where their superiors are reactionary. They have developed a discipline that runs counter to conventional

¹⁸ Arnold, *The Folklore of Capitalism* (New Haven 1937) p. 273.

anthropomorphic beliefs. Their only dogma is cause and effect, which is not yet conservative though it some day may be. Veblen had to conclude from these premises that the workman's allegiance to inherited institutions is crumbling. Individual ownership no longer appeals to them. They will reject the status quo and constitute themselves into a revolutionary organization.

Here Veblen came face to face with his perplexing dilemma. Why is it that trade unionism does not challenge the price system? Unions are tinctured with the socialistic animus but only to a very limited extent. Veblen was compelled to envisage the radicalization of American labor, yet he did not see it in his own time, and today the opposite tendency is as dominant as ever. Capitalism, somewhat modified but essentially the same, has proved itself capable of survival. The industrial coherence and mechanical restraint that a socialist order would exercise have not come into being; the disaffection which was to have taken place among men in the skilled mechanical trades has failed to materialize. As Veblen knew, the body of unskilled workers is relatively unmoved by radical theories. Nevertheless, in the face of these facts and almost in spite of himself, Veblen had to predict not only a socialistic order but one that would be extremely democratic since "socialists are in a high degree intolerant of any monarchical, aristocratic, or other prescriptive government."¹⁹ Where Veblen is most affected by Marxism he is at least accurate as a prophet. Either he or Marx could have said not alone that machine industry, directly or indirectly, gives rise to socialism but that the two are really expressions of the same complex of causes. Logically, socialism must triumph. Veblen's last chapter is entitled "The Natural Decay of Business Enterprise," but its final paragraph reveals his struggle. Having left none but the logical socialistic outgrowth as a possibility, he finally had to

¹⁹ Veblen, *The Place of Science . . .* (cited above) p. 355. Veblen became really nonsensical when he averred that socialism could be expected to develop among delicho-blonds because "they are perceptibly more efficient, more readily inclined to think in materialistic terms, more given to radical innovation. . ." Similar statements occur throughout Veblen's work.

confess that dynastic and business politics might nevertheless win out.

IV

In *The Nature of Peace and the Terms of its Perpetuation*, Veblen was hard put to it to explain the continued prevalence of such an untoward habit as war. He did so by dismissing it as an instinct. That this does violence to technological determinism is obvious, for clearly, from such a viewpoint, some causal agent takes primacy over the state of the industrial arts. A quality of human nature exists — ubiquitous, intimate, and ineradicable — prior to technology. The admission of this fact contradicts Veblen's most basic argument.

In attempting to explain the riddle Veblen stated that the patriotic animus is an enduring trait, an ancient heritage that has stood ever since time immemorial. The level of its ardor seems to be no lower today than it ever was. The fact of unreflecting allegiance remains and is to be seen everywhere. It is an endowment of the race based upon "a concatenation of several impulsive propensities."²⁰ Any special mode or amplitude of response is a product of conventionalized use but the thing itself is innate. A sentimental attachment to habitat, the love of home, coupled with a gregarious and exclusivistic bent, is of its essence. So are abnegation and self-abasement, which go with it to make the bearer unquestioningly accept prescriptive ideals. Patriotism, then, is a constant manifesting itself in one or another variable. It is part of our racial complexion which has not changed since prehistoric times. But it is now a great impediment. Does that mean that patriotism will be eliminated? Not at all, Veblen replied in effect, not even if its continuance incapacitates the species for further habitation on earth. "It is to be noted, therefore, that the fact of their having successfully come through the long ages of pre-history by the use of this mental and spiritual endowment cannot be taken to argue that these peoples are

²⁰ Veblen, *The Nature of Peace* . . . (New York 1917) p. 46.

thereby fit to meet the exigencies of this later gravely altered age." ²¹

Thus, at this juncture where Veblen is most flagrantly inconsistent, he completely transcends Marxism. No devotee of Marx could, to begin with, have categorized patriotism as a part of the substructure, which is really what Veblen did. Or, assuming that he and the Marxists could agree on this point, there would remain the future. Veblen could, and intermittently did, look at it bleakly, while the Marxist is shackled to an optimism that daily grows more indefensible. In so far as he escaped the deleterious romanticism of Marx — and in this case it is a total escape — Veblen ascended to a much higher rank as thinker and prophet.

But Veblen was afflicted with ambivalence, and even in this book reverted occasionally to the other phase of his temperament. It is impossible to believe with any logical consistency that war is simply foisted upon the people by businessmen who profit from it and, at the same time, that war is the result of patriotism which cannot be exorcised from the psyche. Yet Veblen alternately defended both points of view, and his gloom seems justifiable to us, irrespective of how soundly he has analyzed the total pattern. We are rightly apprehensive of what for the first time is conceivable — race suicide. It is to Veblen's everlasting credit that he had some realization of what destiny held in store for us. Veblen saw aright that Germany and Japan were bound to unite and that a league of nations composed of sovereign states would surely be rent with dissension. In the twenties he favored a hard peace and the expropriation of German and Allied colonial holdings, including the British, in order to end dynastic aggrandizement everywhere. Such were the minimal conditions for a temporary peace. We know only too well how they were not fulfilled. Veblen entertained no expectation that common sense would triumph in this situation. Or rather, he oscillated, and finally expressed his uncertainty whether the musty institutions of property, the price system, and nationalism would be disestab-

²¹ *Ibid.*, p. 49.

lished or not. He was sure that we could rid ourselves of them only with damage, discomfort, and shame. But the alternative is even worse. Thus we are caught up in our own fate.

v

The Higher Learning is Veblen's fiercest work. Its premise is that our schools are in a perilous state. The college president, Veblen pointed out, is, like the self-made man, a purely American phenomenon. On the whole, conditions are worse here than in Europe where American intellectuals must go to study or remain untutored. The university has been so fully transformed that it is now a business concern dealing in standardized erudition.²² Its president is most conscientious in performing the duties with which he is charged by the powers to whom he must remain accountable. His underlings are obedient or they lose out. Very little criticism is tolerated. The president himself acts as the servant of class conviction and popular sentiment, and his security depends upon how flexibly he responds to such pressures. He cannot discountenance the admission of what Veblen terms the genteel contingent, a group whose members do not even pretend to seek knowledge. After "the due term of residence at some reputable university, with the collegiate degree certifying honorable discharge,"²³ they are afforded the proper accouterment for entering society. These and their like have to be accommodated, so blameless ways and means of dissipation are contrived. Sports come into prominence; fraternities, clubs, and exhibitions multiply; and a coercive plan of itemized instruction is constructed so as to deal with the adolescent mind. Thus a massive organization of departments, schedules, and accountancy is what absorbs the executive head of any large university. The

²² Max Weber echoed these sentiments when he said: "The American's conception of the teacher who faces him is: he sells me his knowledge and his methods for my father's money, just as a greengrocer sells my mother cabbage. And that is all. To be sure, if the teacher happens to be a football coach, then in this field, he is a leader. . ." (*op. cit.*, p. 149).

²³ Veblen, *The Higher Learning* . . . (cited above) p. 101.

premium is on mediocrity and perfunctory work. Instead of concentration on synthesis there is much interdepartmental rivalry, for allocations of money are often contingent upon the number of students attracted. Every appeal must be made to the lowest common denominator.

In such an atmosphere the scholar cannot breathe, and few men have come as close to suffocation as Veblen, who was tossed from one unappreciative institution to another. His was a single-minded devotion to the search for truth. He could not very well abide the sideshows, the college spirit, the opulent accessories that surrounded and, for most of his life, hid him from those who would have benefited most by his teachings. While he went unheeded, athletes were being apotheosized, and Veblen's aversion for them was boundless.

Yet, and what is most crucial, we are in an advanced state of technology. If there were but one irreducible cause that shaped the social situation, our universities would be much better than those of Europe, and they would inevitably improve. In point of fact, however, the movement is toward a complete abandonment of reason in education. Veblen hoped that some palliatives would help. For instance, retreats or shelters could be established for the prosecution of scholarly inquiry in some sort of academic quarantine. But these establishments would have to renounce instruction and surrender the university ideal. As Veblen put it, "a seminary of higher learning, as distinct from an assemblage of vocational schools, is not a practicable proposition in America under current conditions."²⁴ And current conditions stand every chance of prevailing or deteriorating for an incalculable period of time. Thus Veblen described the social complex in which simultaneity is granted to a rationalism which is minimal and an irrationalism which is maximal.

Veblen would have been the last to deny the importance of technology; he only subordinated it. For this reason *The Higher Learning* is his tour de force. It demonstrates that although

²⁴ *Ibid.*, p. 263.

Veblen could use Marxian concepts fruitfully, he was something more or other than a Marxist. Whenever he broke loose from doctrinaire socialism, Veblen was much more of a Freudian than a Marxian philosopher.²⁵ The maturation of Veblen's thought led him to note two forces of roughly equal magnitude, whose coetaneous presence acted first in the promotion of reason and then in its derangement. In this discourse he did not fluctuate between them, but gave each its due with most satisfactory results. Idle Curiosity and the Instinct of Workmanship create Learning. They exert a positive force in the world which is negated by their natural enemy, Business. In capitalizing the symbols of these ideas Veblen virtually hypostatized them. But they serve to point up in an allegorical way the politico-economic world as he conceived it.

VI

"I say, the critic must keep out of the region of immediate practice in the political, social, humanitarian sphere if he wants to make a beginning for that more free speculative treatment of things, which may perhaps one day make its benefits felt even in this sphere, but in a natural and thence irresistible manner."²⁶

Veblen did not heed this cautious advice and made a few forays into the "real" world. As a contributor to *The Dial*, he tried to assume a popular tone. But Veblen was not a propagandist or a demagogue, and his efforts to reach the common man whom he exalted were futile. Of the two books which have been compiled from these essays, the later is by far the weightier. Though *The Vested Interests and the Common Man* (New York 1919) is forceful, it is unfortunately a repetitious restatement of Veblenism. Its analogies are so overdrawn that business is simply reduced to blackmail or ransom or any traffic in extortion, whereas

²⁵ See Sigmund Freud, *Civilization and its Discontents* (New York 1930), especially Chapter I, where Freud discusses the regressive or primitive impulses existing within civilization, which correspond psychologically to the sociological concepts projected by Veblen.

²⁶ Matthew Arnold, *The Victorian Age* (New York 1945) p. 503.

the worker is represented as a model of industry and honesty. Here the schism between Veblen and Marx narrows, but it widened again and for good in *The Engineers and the Price System* (New York 1921).

In 1919 Veblen could say, not without justice, that "the common man has won the war and lost his livelihood." There was in that year an acute state of distress, "an altogether unwholesome pitch of privation, for want of the necessary food, clothing and shelter."²⁷ Yet it was perfectly clear to Veblen that while so many people were being deprived of the bare necessities, our ability to produce had unquestionably increased. We of this generation have arrived at a comparable state. There were more masses starving in 1946 after the second world war than before it. Little has been done to palliate, and nearly everything has been done to perpetuate, this crisis. After every war there is a grave emergency, which is exceptional to Veblen and the Veblenians only in its magnitude and severity, since the same kind of thing goes on as a matter of course in ordinary times. It is exemplified by the protective tariff — which was totally abhorrent to Veblen from first to last — because its effect is to keep the supply of goods down in order to keep prices up. And, according to Veblen, there will never cease to be deprivation of the many who serve the few so long as plenary discretion in industrial matters remains with those least able to understand them. The financier has final authority and he is seldom anything more than a routine administrator, though he is supposed to direct a technology that has grown into the most diversified, specialized, extensive, and difficult process yet created by man. But the cash nexus is evidently not a strong enough link to bind his concerns with the ones he is called upon to guide. The engineer, Veblen reasoned, is as knowledgeable as the businessman is ignorant. The organization of mechanical power and material resources demands, but never gets, systematic control under the direction of industrial experts, with the result that there is dissension, misdirection, and unem-

²⁷ Veblen, *The Vested Interests* . . . p. 11.

ployment. If the responsibility were turned over to a group of skilled technologists these evils would then be considerably less noxious.

It is the burden of Veblen's thesis, which reaches a logical culmination in this book, that business is a parasitic supererogation, and that all those who fall into the merely commercial class may be designated as undesirable. So far, there is nothing incompatible with Marxism. But Veblen did not at all favor the classless society, even if it were to be ushered in by a temporary dictatorship of the proletariat. He saw things differently from Marx and his approach merits separate consideration. The choice before us is not simply between Marxian socialism and free enterprise capitalism, although it has seemed that easy to those who have been poisoned by contemporary dogma. Veblen was the first major sociologist to detect an emergent class whose dominance is now *de facto* and could become *de jure* as well. When James Burnham expatiated on this subject in *The Managerial Revolution* (New York 1941) he merely elaborated Veblen's speculations and concluded that no matter how much one might yearn for the socialist utopia there was no prospect of its materialization. That *laissez-faire* capitalism is dead all except the die-hards agree. But sharp differences exist over what will take its place in the future. Both normatively and descriptively Veblen's stand diverges from Marx's. He not only did not especially want, but he did not in any sense foresee, a classless society. And his negative vision is being borne out all over the world. Society has not ceased to be stratified; it is merely stratified in a new way. This is a time that calls for the specialist, the expert, the technician, the engineer. Bureaucratization, not egalitarianism, is inevitable. Unless man reverts to a preindustrial state of barbarism like that envisaged in Butler's *Erewhon*, the bureaucrat will rule him. Marx did not even reckon with such a leader except as the transient figure who lived in a kind of hazy prehistory that would presage the socialist dream. In Veblen's work he is the central character. The specialist and his compeers

are the real General Staff in an industrial army that cannot do without them.

In a sense, Veblen stands equidistant between Marx and Weber (whom Albert Salomon has named the "bourgeois Marx"). Weber's view of things is as bleak as Marx's is bright. Veblen's is a combination, but in his best work the Weberian overshadows the Marxian strain. Veblen and Weber have both been vindicated, whereas Marx has been refuted by the failure of socialism. Weber stressed the importance of bureaucracy in modern life, and noted the universal rationalization of society that was taking place, as well as the depersonalization and routinization that went with it. In this he and Veblen had a strong kinship. They broke with sociologism and proclaimed that conditions were more portentous than the positivistic optimist could imagine.

It is typical of Veblen that his "constructive" ideas should have been compressed into one brief chapter entitled "A Memorandum on a Practical Soviet of Technicians." The suggestions are hypothetical. They are not "to the engineers what the *Communist Manifesto* purported to be for the proletariat," despite the dust jacket claims. This was the construction popularly put on the book, and when Veblen's proposals had been sufficiently distorted, they led to Technocracy. But Veblen himself did not believe that a forcible dispossession of the capitalists would take place. He thought that they might one day reluctantly but voluntarily abdicate their positions of supremacy. Then an industrial directorate could be formed with a large ramification of subcenters and local councils, whose main duty would be to avoid "all unemployment of serviceable equipment and manpower on the one hand, and all local and seasonal scarcity on the other."²⁸ Veblen advised the board to make full use of consulting economists who would occupy a place analogous to that of legal counsel among diplomats and statesman.

This plan could only hope to succeed if it rigidly excluded businessmen from all positions of trust. There is the stumbling

²⁸ Veblen, *The Engineers and the Price System*, p. 144.

block. The American public is beguiled into trusting no group but one composed of businessmen — the very ones and the only ones Veblen deemed completely unqualified. If there were a great deal of cooperation between engineers and economists, one could be more hopeful, but actually, teamwork has been lacking, and there is no reason to anticipate a reversal so great that it will provoke the abandonment of absentee ownership. The revolution could be accomplished peacefully, but Veblen doubted that it would be accomplished at all. By themselves the technicians might effectually incapacitate the country's industry and take it over. But without the tolerant consent of public opinion, backed by aggressive support from below, they would be virtually helpless to institute an organization on the new footing. Veblen summarized his viewpoint: "There is nothing in the situation that should reasonably flutter the sensibility of the Guardians or of that massive body of well-to-do citizens who make up the rank and file of absentee owners just yet."²⁹

It appears then that Thorstein Veblen was a thinker in his own right, related to, but only partly dependent upon, Marx. His class concepts resemble those of Marxian sociology in some respects, but they differ in even more significant ones. Primarily, Veblen wavered in the application of technological determinism, and the doubt he thus revealed is an accurate measure of his success.

²⁹ *Ibid.*, p. 169.

(New York City)

BOOK REVIEWS

MORGENTHAU, HANS J. *Scientific Man vs. Power Politics*. Chicago: University of Chicago Press. 1946. 245 pp. \$3.

This important book is more than a scathing attack on the self-interpretation of this age as the age of reason, but it is primarily that. The point throughout is that the political world cannot be properly understood, much less dealt with, in terms of science. The contention that it can and should be so understood and so dealt with is held responsible for the ghastly failure of the last generations, for the ever-mounting tensions and conflicts, which grow in direct proportion with the promise of harmony and security through science. Yet, caught in our philosophy and unable to rise above it, we answer every frustration with the clamor for more science, thus aggravating the ill that results from a wrong diagnosis and therapy.

At the center of the fallacy, according to Morgenthau, is the impossibility of scientifically analyzing the phenomenon of power—the stuff of which the political and international world is made. The drive to power, dynamic and insatiable, is contrary to any rational interpretation of human nature. It is therefore represented in any rational picture of the world by the concept of unreason, which the progress of reason gradually and surely overcomes. It is, in other words, identified with irrationalist feudalism, which is conquered by the rational bourgeoisie. In the rational picture feudalism is defended against the rational aspirations of the bourgeoisie by the state, the domain of the nobles, whose delight and honor reside in strife and war. Rational economics, the domain of the bourgeoisie, is the remedy and substitute for power, state, foreign policy, and war; group relations, both domestic and international, must, like business deals, be subjected to the rule of law. In our age of reason education inculcates in students these doctrines of the increasing domestication and manageability of the world which their experience so glaringly refutes.

There is some ground for quarreling with these sections of the book, not only because they are guilty of a certain repetitiousness and overlapping but also because they are occasionally indiscriminating and even contradictory, which makes it easier for those who are most in need of learning from the book to escape into indignation. Morgenthau ignores the tolerance in liberalism that comes from the confidence that free discussion will issue in the ascertainment of truth; he insists exclusively on the feeling of superiority of the rationalist, and appears to confuse it with that of the puritan (p. 36). He blames

the liberal belief in sweet reasonableness for the principle and practice of nonintervention in the domestic affairs of other countries, which proved so disastrous in the thirties (p. 115), but he blames liberalism also for shaping its foreign policy on the basis of sympathy with liberals in other countries, thus reducing foreign problems, he says, to the familiar domestic and economic ones (p. 59). Is he in favor of intervention or nonintervention? Morgenthau admits in passing that the Holy Alliance, based on the same principle of solidarity of domestic interests, had some temporary success, but goes on to blame Bismarck for his sentimental monarchism, tracing it to infection by the liberal prejudice of even the conservative element. Is he really unaware of the fact that the Holy Alliance, Bismarck, and liberalism kept one full century free of major wars? Occasionally, geopolitical factors seem to be the only ones he recognizes as legitimate in the determination of foreign policy, but then again he subsumes geopolitics under his verdict on science as applied to politics (p. 94).

In short, Morgenthau seems to overlook the fact that there is in life a rational element intermixed with the irrational elements which he rightly stresses. He does not fully appreciate the quite fundamental fact that a doctrine of preordained harmony is at the basis of all scientism, liberal and Marxist: the world has been so constructed as to be actually or potentially harmonious and therefore, manageable, without the appeal to a higher instance in religion. He goes so far as to say that Adam Smith felt the need of a somewhat irrational explanation, evident in his reference to the invisible hand "which in a miraculous way leads selfish interests toward prosperity for all" (p. 75); thus Morgenthau obscures the perfect identity of the rational machinery in Smith and in any atheist successor, which exists no matter how the origin of that machinery is discussed. On the other hand, he misunderstands Marxism when he states that it too regards politics and war as illegitimate and to be replaced by the goodness of economics (pp. 53, 77); this is true as the ultimate result of the dialectic of history, but this very dialectic, every step of which is an indispensable prerequisite of that happy liberal ending, assigns a rational function to political violence as "the midwife of history." Finally, Morgenthau does not see that the "reason" which he criticizes assumes quite different forms in history, ranging from the reason of free pioneering individuals to the reason embodied in large-scale organization tending towards totalitarianism.

The value of the book can be judged from the fact that it is not

materially affected by such shortcomings in the matter of details. This is true even of the first part; the second is still better.

Though social scientists are in raptures over the strictness of the natural sciences, which they long to emulate, determinism has evaporated in the natural sciences, and what remains is averages and probabilities; the natural sciences have modified the logical structure of their laws in the direction of the social sciences. If it has long been clear that society cannot be studied in a detached, objective way, because the student changes the object by his study, this is precisely what the leaders of modern natural science say of their own studies. (Tillich explained all this two decades ago in *The Religious Situation*. And in a recent book which Morgenthau might have used with much benefit, *The University and the Modern World*, Arnold Nash has collected an impressive array of examples to prove the point.) But this, our author significantly continues, does not destroy the possibility of historical and political knowledge; it only forces us to ascertain the peculiar structure of such knowledge. Since there are both the freedom of man and the contingencies of history, there is no determinacy; nevertheless, there are only a limited number of patterns and possible developments, since freedom is certainly anything but absolute. This fact makes social planning possible and necessary, though naturally it is then altogether different in scope and pretension from the grandiloquent plans for the whole of society which arouse such enthusiasm among supposed believers in liberty. Thus emerges the first of Morgenthau's positive points.

Man's freedom in history is described as freedom of moral choice. This follows from the insight that reason in the social sciences is not objective and detached but is "irrationally" influenced by the pressure of interests, traditions, and the like, for example, the tradition and interests of social science as such—a vested interest. Morgenthau goes considerably beyond the current discussion of the sociology of knowledge in saying that for the scholar to free himself from such bonds is a matter of his moral strength; that the decision is not an intellectual but a moral one; and that without such awareness reason, far from being objective, is just an "empty ideological justification" of any special interest that happens to seize upon it.

The nature of the moral courage required for study or action in the political field becomes clearer as we discuss the true nature of political life. Rationalism naturally tries to reconcile political life with whatever ethical convictions men may hold. That is, the essential evil of political action is argued away, most often by the

argument that the end justifies the means. This, the author says, proves too much, however, since the ultimate end to which all the preliminary objectives of our actions are related is the greatness of our nation or our class or our church—something worthy beyond criticism—so that in the last analysis any and every political action is morally justified. (Here the author overlooks the problem of the historical differences in the degree of fanaticism or moderation.) But in any case, scientific man denounces the principle of power politics as an atavism, as discussed above; he denounces the principle of the lesser evil because he does not want to do evil at all; he brags of the purity of his sentiment and permits the world to go to the dogs because he deems himself too good for the proper use of power. Our moral tragedy is that in political life we cannot escape power and the evil that is always present in power: our moral courage lies in choosing the lesser evil out of a deep sense of responsibility and justice.

No more moving account of the situation of man in history has been written than this one. And the only quarrel one can have with it is on grounds of theology. By holding that power is the seat of evil, Morgenthau is brought uncomfortably close to the pacifists, though his sense of realistic moral responsibility is too profound to draw the pacifist conclusion that one must shun power. But power in itself is as little bad as anything else in human life; it is not the means to injustice only, but to justice as well. Because man is free he can abuse his power, but the fault is his, and not ultimately an error in God's creation. One does not see how the author's profound and fearless pessimism could otherwise avoid the despair of moral anarchy.

ÉDUARD HEIMANN

CALHOUN, JOHN C. *A Disquisition on Government*. [With an Introduction by Naphtaly Levy.] New York: Political Science Classics. 1947. xii & 107 pp. Cloth \$2.75; paper \$2.

Though historians of American political thought have repeatedly testified to the high standing of Calhoun's *Disquisition on Government*, the treatise is far from being as widely known as it deserves. By issuing this reprint of the original posthumous edition of 1853, and thus making the essay again generally available in the book market, Mr. Levy can claim to have done the publisher's share in trying to remedy that deplorable fact. The "Editor's Note," which precedes the text, is to Mr. Levy's further credit. This skilful sum-

mary of Calhoun's main points suggestively indicates that the treatise is as pertinent to the problems of state and government today as it was to the issues of Calhoun's own time.

The truth of the matter is that the *Disquisition* has failed to receive proper attention, not so much because it has long been out of print, but rather because we have obstinately refused to be interested in the theoretical writings of a statesman who espoused slavery, nullification, and secession. In fact, we did not even care to study those writings with a view to interpreting through them Calhoun's practical policies, though doctrinairism undoubtedly accounts for his actions to a much greater extent than it does in the case of most other American statesmen. True, the *Disquisition* touches upon the slavery question only slightly and indirectly. But the more revealing it is of Calhoun's views on nullification and secession. Again, we should be mistaken, if we looked in the *Disquisition* primarily for a justification of the right of nullification and secession. To be sure, this justification is implied and also expressly stated therein. The essay, however, is fundamentally a desperate attempt to devise and advocate a system of government under which the exercise of that right can be reasonably expected not to become an actual fact. By intention at least, the *Disquisition* is a judicious endeavor to deduce from the first principles of politics the very maxims that render a democratic society and government permanent, stable, and powerful. This intention gives the *Disquisition*, written, as it is, by a man whose name has become associated with the Civil War, a touch of deep tragedy. It should also make us wonder whether there was not, after all, more consistency between Calhoun the nullifier and Calhoun the nationalist than it is usually suggested.

Calhoun's theory of constitutional government, based on the principle of concurrent majority, would therefore be interesting enough in terms of American history alone. But it was meant to be a general theory of government, and thanks to this quality it is relevant also to our present-day political problems, international as well as domestic. The former aspect should be particularly emphasized. Calhoun's inquiry into the inherent limitations of the principle of the numerical majority has acquired special significance at a moment when we are trying to extend the majority principle to international politics. One would like to hope that the reprint of the *Disquisition* will induce us to do some hard thinking about the problems involved, before we proceed further in applying techniques of domestic politics to the dealings among nations. No less rewarding is the study of the

Disquisition with regard to the legitimacy and the expediency of the majority principle in relation to the domestic issues of the twentieth-century state. To emphasize the bearing of Calhoun's treatise on the various minorities problems in our present-day world, is, however, not to suggest that it supplies us with a general solution of those vexing questions. It must even be admitted that Calhoun was somewhat vague about the institutional aspect of the principle of concurrent majority.

Mr. Levy announces that the *Disquisition* will be followed by other classics in political science that have become unavailable. Let us hope that he will be able to carry out his meritorious publication plan.

ERICH HULA

HOGAN, JAMES D. *Elections and Representation*. Oxford: Cork University Press. 1945. lv & 239 pp. 15 shillings.

After mature, if in part verbose, reflections on power and representation in a lengthy preface, Dr. Hogan, who is professor of history at Cork University, begins his book with a monographic discussion of proportional representation in Eire. The thorough elaborate treatment of this special case leads the reader to think that the entire book is to be devoted to it. In the second half, however, Eire and P.R. are abandoned, and the author turns to a re-examination of the general theory of representation. Both parts are valuable, and thus the book furnishes a good illustration of the development of general theoretical contributions out of the experiences and problems of a small country.

Eire has been held up as evidence that strong government can be developed under P.R. without the suppression of minorities that would have followed from the majority system. Dr. Hogan convincingly refutes the strength of this evidence. In the first place, P.R. in Eire is not proportional, since fifteen out of thirty-four constituencies have only three seats each, and another eight have only four, with the result that the majority of all seats (77 out of 137) are returned from constituencies having fewer than the five seats that are rightly claimed by P.R. advocates to be necessary in order to guarantee proportionality. With full proportionality Eire would have had no majority party most of the time. In the second place, proportionality is not essential to securing representation of religious minorities, unless they are thinly scattered without local concentration; this was demonstrated after the abolition of P.R. in Northern Ireland in 1929. And in the third place, the favorable record of P.R. in establish-

ing strong government in Eire is due to the particular circumstance that Eire had great national issues at stake from 1922 until the war. Even so, the danger of disintegration was grave at times and could be overcome only by repeated elections; it is even graver now that the great national issues have been resolved.

But Professor Hogan does not propose simply to abandon P.R. Though relying heavily in his theoretical analysis on F. A. Hermens, whom he quotes abundantly, he is willing to correct the erratic features of an unqualified majority system. "P.R. assures adequate representation, but only at the cost of weakening government, while the majority system secures adequate government, but only at the price of withholding adequate representation" (p.89). Thus he ends by advocating a combination that employs some devices of P.R. but reduces their disintegrating effect. Not only should the three-seat constituencies be maintained in Eire; they should be increased and in some cases even replaced by two-seat and one-seat constituencies. This would force the parties to seek compromises and combined programs before elections, but would leave minority groups like labor a chance to build up their own representation. It may be noted that one of the worst defects of P.R., namely, the type of candidates it produces in nationwide elections, is not tackled by this proposal. Nevertheless Dr. Hogan's book offers a stimulating contribution to the P.R. issue. Though he rightly warns against mechanical computations of results under different systems, since people would not necessarily vote the same way under all of them (p. 41), his analytic tables on election results in Great Britain, Eire, Northern Ireland, Sweden, and Spain, despite the fact that they rely on such computations, are useful.

Our struggle pro and con P.R. is merely a symptom of the nebulous state of our theory of representation. Therefore, the second part of Dr. Hogan's book with its thoughtful discussion of this general topic ought not to be overlooked by students of government. It fills a gap in the contemporary literature on democracy, which almost consists of more gaps than substance. This latter part also contains a long and good chapter on Burke, in which the author predicts a renaissance of Burke's influence (pp. 157-203), and another on occupational representation. Incidentally Dr. Hogan warns against abandoning local and geographical representation in national legislation on the additional ground that this may lead to the abandonment of local government (p.221). He recommends an extra vote for family units (p. 238).

ARNOLD BRECHT

STERNBERG, FRITZ. *The Coming Crisis*. New York: John Day. 1947. 280 pp. \$3.50.

This is an interesting and intelligent book about the difficulties and dangers that threaten our economy and our civilization. Written in the Marxian tradition of explaining everything in terms of the class struggle (though eagerly stressing any secondary emancipation from that dogma), it bravely follows economic problems across the imaginary line that divides economics from politics. This is evident in the very use of the word "crisis" for depression (as Sternberg does use it most of the time) in order to stress the threat which depressions are to the continuance of capitalist society.

Basically the book is pessimistic, most of it dwelling on the reasons for supposing the coming crisis to be all but inevitable. In strong, if rather repetitive, language Sternberg emphasizes why he believes that capitalist society will have difficulty in maintaining prosperity automatically. He shows how unlikely it is that private investment will completely offset the great volume of savings accumulated under conditions of full employment, and supports the thesis with many and impressive statistics of varying relevance.

To point out the unlikelihood of *automatic* prosperity from adequate private investment is not in itself pessimistic. Prosperity might still be maintained by a governmental policy of compensating, along Keynesian lines, for any insufficiency of demand from private consumption or investment. But at this point Sternberg's Marxism, even though somewhat transformed, strains itself to find reasons why it is impossible to make capitalism work—to save it from the depression ("crisis") that is its Nemesis.

Sternberg understands enough of the modern Keynesian economics not to try to dispute it on its own economic ground. He grants the accuracy of its analysis and the efficacy of its proposals if they are applied. His point is that the Keynesian proposals, which could prevent the depression and so remove the danger of the coming crisis, will not be applied. Keynesian economics (which Sternberg couples rather excessively with the name of Beveridge) will not work because it will not be given a chance to work.

The rather detailed argument to prove this point fails to convince this reviewer because like so much else in the book it is based on certain unverifiable Marxian dogmas or prejudices. One of these is a theory of imperialism according to which the high and rising real wages in capitalistic countries in the last century were due to imperialistic exploitation of "colonies." This is somewhat confused with the

doctrine that capitalist countries can be prosperous only if they export a large part of their product (referred to as surplus). One might think that the export of a large part of the product would reduce real wages rather than raise them, but that is apparently not a Marxian argument. Perhaps it is undialectical. The Marxian argument, which Sternberg uses, is that real wages are raised by the sale of the product abroad, either because the prosperity based on foreign markets increases the worker's bargaining power or because the worker in the imperialist country is able to share in the gains extorted from the foreigners to whom the product is sold.

What superficial plausibility attaches to this argument when applied to the British might be expected to disappear when it is observed that the same rise in real wages occurred in Germany and in the United States, as in all other countries where capitalism developed. And Sternberg treats of this in some detail. The absence, however, of any significant body of exploiters from whom the American workers can be said to have got their gains does not seem to disturb this rather tough dogma. An ordinary economist might think that the growth of real wages of workers in capitalist countries could be connected with the growth of productivity as capitalism developed. But nowhere, in discussing the failure of Marx's prediction of increasing poverty of workers to be realized, is increasing productivity mentioned as a possible clue to the mystery. This is not because Sternberg is unaware of the great growth and the expected further growth of productivity, of output per man-hour. On the contrary, the increase of productivity under capitalism is emphasized and stressed and repeated until it becomes almost painful. But it is recognized only for the purpose of showing the impossibility of finding markets for what the United States will be able to produce when reconversion to peace is completed and the gaps left by the war have been filled.

Had Sternberg considered the possibility of our great productive capacity being directed to increasing the income and raising the standard of living of the American people, he might have lost both his arguments. It would be possible to raise the living standard of the workers by the simple device of producing more, so that they (and the capitalists too, of course) could have more. It would not be so essential to find nonexistent markets abroad. (No country can keep on buying our products without selling goods to us to get the dollars to pay for them, and if they do that we are not relieved of the supposed burden of too many goods.) But the two arguments occur in different chapters and are thus not so easily seen to negate each other.

Sternberg argues that the prevention of depression by governmental fiscal policies on Keynesian principles will not be undertaken because the capitalists will not agree to it. They will not agree to it because it is against their class interests. According to Sternberg, full employment policies will not be permitted by the governing capitalist class: first, because they would increase the bargaining power of the workers as a class; second, because they would destroy industrial discipline—the discipline of the workers as individuals (if workers can easily find alternative occupations they will not be afraid of being discharged); and finally, because these policies are based on a recognition that capitalism does not *automatically* provide full employment. The adoption of full employment policies means the beginning of the supersession of capitalism by socialism.

Disregarding the third and last of these arguments (which seeks to escape the problem by the verbal magic of declaring that, if capitalism were to adopt the Keynesian solution, Sternberg would refuse to call it capitalism), it can be seen that the arguments try to prove too much by half. The effects considered do not follow particularly from the Keynesian policy. They are the result of *prosperity*, whether it is achieved by Keynesian or any other policies, or comes about “naturally” without any prosperity policy at all. Even if the prosperity and the increase in real wages in the nineteenth century were indeed made possible by imperialistic exploitation of other peoples or by the creation of markets through imperialistic expansion, the results would have been just the same and would have had the same effects on workers’ bargaining power and on industrial discipline. If Sternberg’s argument were sound, capitalism would have been destroyed by the successful imperialism of the nineteenth century.

Sternberg brings the issue closer to the most important problem of today—the problem of atomic war and peace—in indicating an alternative to Keynesian prosperity plans that would be more acceptable to the capitalists. This is the development of *Wehrwirtschaft*, the growth of governmental expenditure on the development of the economy in the direction of its military potential. The idea seems to be that this particular way of maintaining spending and prosperity would not suffer from the defects mentioned above. For this there is no warrant whatever. Such a procedure would use up resources and raise their prices just as effectively as would any nonmilitary expenditures, such as those on houses. It would have the same effect of making labor scarce and increasing the bargaining power of workers and it would equally emancipate the individual worker from the pressure

of unemployment by giving him alternative occupations should he be dismissed. Even the vague sociological argument that military activities are traditionally reactionary is nullified by the modern technological development which, as Sternberg himself points out in another part of the book, is rapidly destroying the possibility of distinguishing between military and nonmilitary activities.

Sternberg's concern with the dangers of *Wehrwirtschaft*, on the theory that military preparedness is the cause of war, seems to show some traces of the pacifism and the idealization of Russian communism that were so common among left-wingers in the years between the wars. A hint of these views also appears in a few occasional remarks, as when he speaks of the influence of the Russian example on Asiatics who can see the benefits of Russian industrialism and need "no articles, no books, no newspaper and no propaganda to tell them the difference between one side of the frontier and the other. In the literal sense — they can see with their own eyes" (p. 206). One might also say that what the people on the borders of Russia can see with their own eyes are the miserable wretches who nevertheless consider themselves lucky to have managed at the risk of their lives to escape from the Russian-controlled areas in order to be able to enjoy the oppressions of capitalistic exploitation.

But such lapses into the illusions of the twenties and thirties are rare. And they are entirely absent from the last chapter of the book, which displays a surprising metamorphosis. The Keynesian solution, which earlier in the book is analyzed and found to be almost impossible of application, is now the central part of the program. *Wehrwirtschaft* is still denounced, but what is proposed is "armament production of such magnitude as to make any idea of attack on the United States sheer military lunacy" (p. 261). And this does not mean the mere development of defensive instruments, "since any aggressor must inevitably reckon with counter-attacks against his own towns and industries" (p. 261). What this final chapter condemns as *Wehrwirtschaft* is the United States policy, now undergoing modification, of supporting only reactionaries abroad as possible allies against Russia. It is recommended that we make friends instead with the *people* of as many countries as possible, that we refrain from interfering with any tendencies to develop socialist economies, and that we recognize that the potential conflict is not between capitalism and socialism at all, but between free society, whether capitalist as in America or socialist as in England, and slave society as in Russia.

These eminently sensible conclusions are sprinkled with verbal

tributes to the Marxian analysis which forms the bulk of the book. One example is the condemnation of *Wehrwirtschaft* despite its acceptance when translated into English. Another is the rather monotonous practice of combining "capitalist" with "reactionary" and "monopolistic," and "left-wing" with "progressive," so that they occur almost as single adjectives. All in all, one cannot help feeling that the sensible conclusions are reached in spite of, rather than because of, the deference paid to the Marxian first crude approach, in terms of a two-class theory of social determination, toward dealing with the elaborate complex of pulls that shape social events in a democratic society.

ABBA P. LERNER

Roosevelt College of Chicago

HUTTON, GRAHAM. *Midwest at Noon*. Chicago: University of Chicago Press. 1946. 351 pp. \$3.75.

During some of the years of England's trial Graham Hutton was a representative of the British government in a section of this country where that trial was widely misunderstood. Out of that difficult experience, out of serious observation and a substantial amount of research, he has fashioned a book that is warm, sympathetic, and spirited. In fact, the author, noting in his foreword that his book has no pretensions to scholarship, adds that "it was conceived and written with too much enthusiasm . . . for that."

There is rich material in *Midwest at Noon* and considerable insight. Mr. Hutton sees and admirably depicts the transformation of a once predominantly agricultural region into an industrial one. He notes with understanding the suspiciousness of the farmer, and he writes with sympathy of the transition of the businessman, once "the real revolutionary of the Midwest" (p. 121) to a person "more reactionary in social outlook than any British Tory" (p. 67). He sees the problems raised by the Midwestern suspicion of privacy. And in a chapter entitled "The Cult of the Average" he shows his awareness of some of the region's serious educational problems.

Fine books have been written out of enthusiasm, and credit is due the author who is not too timid to pass judgment. But the reader of a book which is at least partly factual has a right to ask that the analysis and the judgment be careful as well as vigorous. *Midwest at Noon* is not always a careful book. On the first page, the author quotes Emerson's appraisal of England: "a country of extremes . . . nothing can be praised in it without damning exceptions, and nothing de-

nounced without salvos of cordial praise." Hutton's principal thesis seems to be the application of that statement to the Midwest. His picture of the youthful overconfidence of the region leads him to comparisons with both Elizabethan and Victorian England, which seem rather unconvincing. More pervasive, however, than these comparisons are the frequent superlatives to which the author is impelled by his evident attempt to justify his thesis. For example, Midwesterners are described as being the kindest, most generous, and most hospitable people in the United States (p. 168), as being the least inhibited of Americans (p. 187), as enjoying the most complete freedom of speech on earth (p. 182), as having the greatest toleration of all beliefs and ideas of all Americans (p. 210), as being most opposed to communism (p. 180), and so on. Indeed, Mr. Hutton goes so far as to say that "the Midwest today is the greatest single repository in the world of Nineteenth Century liberalism, and of the individualism which underlay it" (p. 289).

Few of these superlatives, I believe, have been or can be really established. Anyone who has seen *Tobacco Road* may doubt that

AMERICAN ECONOMIC REVIEW

CONTENTS, MARCH 1948, VOLUME 38

ARE THERE LAWS OF PRODUCTION?	P. H. Douglas
MONETARY ASPECTS OF THE ECONOMIC SITUATION	R. G. Hawtrey
GERMANY'S PREPARATION FOR WAR	Burton Klein
INCOME DETERMINATION AND INVESTMENT	Walter Froehlich
PROFESSOR TARSHIS AND THE STATE OF ECONOMICS	K. E. Boulding
PROGRESSIVE TAXATION AND SACRIFICE	G. A. D. Preinreich

Communications, Reviews, Periodicals, Notes

The *American Economic Review*, a quarterly, is the official publication of the American Economic Association and is sent to all members. The annual dues are \$5.00. Address editorial communications to Dr. Paul T. Homan, Editor, *American Economic Review*, George Washington University, Hall of Government, Washington 6, D. C.; for information concerning other publications and activities of the Association, communicate with the Secretary-Treasurer, Dr. James Washington Bell, American Economic Association, Northwestern University, Evanston, Ill. Send for information booklet.

Midwesterners lead in being uninhibited. Those familiar with the background of *Near v. Minnesota* or *In re Summers* may doubt the statement about freedom of speech. Certainly Chicago has no tradition comparable to that of Hyde Park. In context, where these statements are elaborated, some of them are substantially modified. Also, the thesis itself may lead to apparent inconsistencies. The fact remains, however, that if the book were more cautious, it would be stronger.

Yet, while Hutton is fair, perhaps too fair, to the Midwest, he is not sugary. There is some of that salt of which we have great need right now. The warnings to the press and to education seem very solid. For example, in writing of the conduct of the press during the war, he notes justly, "All nations, all cities naturally glorify their own sons' doings. But to suppress those of others is something new and ominous" (p.281).

The obvious difficulty confronting anyone who writes of the Midwest, as of many other regions, is that of distinguishing the truly Midwestern from the American, the modern, the human. If the Midwest

LAND ECONOMICS

a quarterly journal of

Planning, Housing and Public Utilities

Starting with the February 1948 issue, the *Journal of Land & Public Utility Economics* will carry the above title. As *Land Economics* the magazine will continue to publish scientific materials dealing with urban land, land resources, and public utilities, supplemented by reports, comments and book reviews.

Among the articles soon to appear are:

A Symposium Series on the Coordination of Federal and State
Administrative Activities

Escape into Decentralization?.....Svend Riemer

Gas and Electricity: A Study in Duopoly in Great Britain.....F. R. Jervis

Development of Soil Conservation Programmes in

Australia.....Keith O. Campbell

Subscription — \$5.00 per year

Single copies — \$1.50

Sterling Hall

University of Wisconsin

Madison 6, Wis.

has a distinct flavor, that flavor seems to be derived from the recipe of geography. Hutton is aware of the geographic factors, of Frederick Jackson Turner's thesis of the frontier, and of the relation of Turner's thesis to the Midwest. What happens when geography itself becomes unstable? What foundations are there for American democracy other than the frontier and insularity? If distance, location, resources, and hardihood are no longer sufficient to produce a pattern of thought for foreign and domestic policy, can a new pattern be adopted that will preserve and enlarge the virtues of the Midwest and of the United States? In the last two chapters of his book, Hutton treats of these questions, optimistically but with challenge. They seem to me more important than any of the other questions likely to be posed by a study of regionalism, and it is no reflection on *Midwest at Noon* to say that they can be answered not by this book but only by future generations of Midwesterners.

HOWARD B. WHITE

Coe College

American Sociological Review

The Official Journal of the American Sociological Society

PUBLISHED BI-MONTHLY

The *American Sociological Review* is published bi-monthly, appearing in February, April, June, August, October and December.

It is devoted to the publication of papers and proceedings of the American Sociological Society, and to research studies contributed by the Society's membership.

Subscription \$4 a Year; Single Copies \$1

Ernest R. Mowrer, Managing Editor
Northwestern University
Evanston, Illinois

BOOKS RECEIVED

- BARNES, HARRY ELMER, ed. *An Introduction to the History of Sociology*. Chicago: University of Chicago Press. 1948. xvi & 960 pp. \$10.
- BARTH, HEINRICH. *Philosophie der Erscheinung: eine Problemgeschichte erster Teil Altertum und Mittelalter*. Basel: Benno Schwabe; American representative, Albert J. Phiebig. 1947. xiv & 390 pp. \$8.40.
- CHAPIN, F. STUART. *Experimental Design in Sociological Research*. New York: Harper. 1947. x & 206 pp. \$3.
- DAMALAS, B. V. *La Réorganisation de l'économie mondiale*. Paris: Presses Universitaires de France. 1947. 519 pp.
- FRANKLIN, JOHN HOPE. *From Slavery to Freedom: A History of American Negroes*. New York: Alfred A. Knopf. 1947. xv & 622 pp., index xlii pp. \$5.
- GRAYZEL, SOLOMON. *A History of the Jews*. Philadelphia: Jewish Publication Society of America. 1947. xxv & 835 pp. \$3.50.
- HARRIS, SEYMOUR, ed. *The New Economics: Keynes' Influence on Theory and Public Policy*. New York: Alfred A. Knopf. 1947. xxii & 686 pp. \$6.
- HECHT, DAVID. *Russian Radicals Look to America, 1825-1894*. Cambridge: Harvard University Press. 1947. ix & 242 pp. \$4.
- KINSEY, ALFRED C., WARDELL B. POMEROY, CLYDE E. MARTIN. *Sexual Behavior in the Human Male*. Philadelphia: W. B. Saunders. 1948. xv & 804 pp. \$6.50.
- KIRK, DUDLEY. *Europe's Population in the Interwar Years*. Princeton: Princeton University Press. 1946. xii & 303 pp. \$4.
- KLEIN, LAWRENCE R. *The Keynesian Revolution*. New York: Macmillan. 1947. ix & 218 pp. \$3.50.
- KURLAND, SAMUEL. *Cooperative Palestine: The Story of Histadrut*. New York: Sharon. 1947. xvii & 276 pp. \$3.
- LANDAUER, CARL. *Theory of National Economic Planning*. Berkeley and Los Angeles: University of California Press. 1947. viii & 274 pp. \$4.
- MILLETT, JOHN D. *The Process and Organization of Government Planning*. New York: Columbia University Press. 1947. xi & 187 pp. \$2.50.
- NUSSBAUM, ARTHUR. *A Concise History of the Laws of Nations*. New York: Macmillan. 1947. 361 pp. \$4.50.
- ODUM, HOWARD W. *Understanding Society: The Principles of Dynamic Sociology*. New York: Macmillan. 1947. vi & 749 pp. \$5.
- PELCOVITS, NATHAN A. *Old China Hands and the Foreign Office*. New York: King's Crown Press. 1948. xi & 349 pp. \$3.75.
- RADOMSKI, ALEXANDER. *Work Relief in New York State, 1931-1935*. New York: King's Crown Press. 1947. x & 332 pp. \$3.50.
- ROBINSON, JACOB. *Palestine and the United Nations: Prelude to Solution*. Washington: Public Affairs Press. 1947. viii & 269 pp. \$3.25.
- ROHEIM, GEZA, ed. *Psychoanalysis and the Social Sciences*. New York: International Universities Press. 1947. 427 pp. \$7.50.
- SHOUP, CARL S. *Principles of National Income Analysis*. Cambridge: Houghton Mifflin. 1947. xii & 405 pp. \$5.
- Yearbook of the United Nations 1946-1947*. Lake Success: United Nations. 1947. xxxiv & 991 pp. \$10.
- ZIMMERMAN, CARLE C. *Family and Civilization*. New York: Harper. 1947. x & 829 pp. \$4.50.

THE GRADUATE FACULTY OF POLITICAL AND SOCIAL SCIENCE

Summer Term: June 7 to August 2, 1948

The summer program offers a representative choice of graduate courses in the various fields of the social sciences and affords opportunities both to students who wish to acquire higher degrees at the Graduate Faculty and to those who are studying for the sole purpose of broadening their knowledge and deepening their understanding of the forces at work in our society.

WELFARE ECONOMICS	<i>Abba P. Lerner</i>
MONEY AND MONETARY POLICY	<i>Alfred Kähler</i>
BUSINESS CYCLES	<i>Hans Neisser</i>
INTERNATIONAL TRADE	<i>Abba P. Lerner</i>
MANAGEMENT AND LABOR	<i>Julie Meyer</i>
THE STUDY OF MAN	<i>Albert Salomon</i>
PSYCHOANALYSIS AND SOCIOLOGY	<i>Sidney Axelrad</i>
RESEARCH IN THE HISTORY OF POLITICAL IDEAS	<i>Leo Strauss</i>
AMERICAN PARTIES AND ELECTIONS	<i>Howard Penniman</i>
INTERNATIONAL ORGANIZATION	<i>Leo Gross</i>
DOMINANT IDEALS OF WESTERN CIVILIZATION	<i>Horace M. Kallen</i>
PROBLEMS IN THE PSYCHOLOGY OF THINKING	<i>Martin Scheerer</i>
DYNAMICS OF BEHAVIOR — AN EXPERIMENTAL APPROACH	<i>David A. Emery</i>

For further particulars write for catalogue

66 WEST TWELFTH STREET

NEW YORK 11, N. Y.